



**ROLE OF UTTAR PRADESH STATE CO-OPERATIVE
VILLAGE DEVELOPMENT BANK LTD. IN THE
AGRICULTURAL DEVELOPMENT OF U. P.
WITH
SPECIAL REFERENCE TO ALIGARH DISTRICT**

**ABSTRACT
OF THE THESIS**

SUBMITTED FOR THE AWARD OF THE DEGREE OF

**Doctor of Philosophy
IN
COMMERCE**

by
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**UNDER THE SUPERVISION OF
Dr. M. Imran Siddique**

**DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
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2002**

ABSTRACT

"Role of Uttar Pradesh State Co-operative Village Development Bank Ltd. in the Agricultural Development of U.P. with Special Reference to Aligarh District"

The Present Study entitled "Role of Uttar Pradesh State Co-operative Village Development Bank Ltd. in the Agricultural Development of U.P. with Special Reference to Aligarh District" is a modest attempt to examine the lending policies and performance of State Co-operative Village Development Bank in the agricultural Development of Uttar Pradesh. The c-operative movement has been in operation in Uttar Pradesh for over nine decades. It is an instrument for social change and means for ensuring people's participation in the development of Uttar Pradesh State programmes. Initially its field was limited to credit only now it is spread to all most all the activities of economic development of the state.

Uttar Pradesh is one of the big States in population as well as in area in the Union of India. Uttar Pradesh occupies an area of 2,94,411 square Kilometers of the Union of India. Geographically the State divided into five regions, viz., Hilly area, western, central, Eastern and

Bundelkhand. The total population as per census of 1991 is 13.9112 lakh out of which 11.15.06 lakh (80.15 percent) lives in Village. There are 215.293 land holding in the state covering an area of 185.698 hectares out of which 89.98 percent holdings are below 2 hectares and their share in total area is 57.59 percent only.

The State is gifted with potentially fertile soils and has different tropical monsoon climate. The 297.94 lack hectares have been sown in the year 1998-99. The important crops of the state are rice, wheat, maize, sugarcane, pulses etc. The contribution of agriculture and allied occupation to the total state income was about 42 percent. At present about 70 per cent of the population is directly or indirectly linked with agriculture sector.

Agriculture has thus been the main occupation for the vast majority of the people in the State. It is natural that all efforts should be made to improve agriculture, which is the backbone of the State's economy. The methods will, therefore, have to be devised not only to increase production and productivity but also to ensure that their benefits accrue to a vast multitude of small farmers who, for various socio-economic disabilities, are not by themselves in a position to attain a viable status. The primary remedy is to provide adequate funds for development of agriculture. Among the various types of funds needed, long-term credit forms the most important basis for the same. The purposes for which long-term finance is needed are for minor irrigation (construction of wells, tube-wells and purchase of

pumpsets), land reclamation, purchase of heavy machinery and tractors, construction of godowns, dairy development, poultry farming, horticulture, sericulture, etc.

The various sources through which the long-term credit is made available to the farmers are LDBs, commercial banks, the state Government and the private money-lenders. For instance, the ideal system for providing long-term credit in agriculture would be to institutionalise the entire credit disbursed by different agencies. It may be noted that the funds provided by the money-lenders are very costly to the cultivators and funds provided by the Government are too meager and suffer with the various stigmas like red-tapism, favourism, etc. The entire long-term credit is, therefore, to be provided by the Land Development Bank or by the Commercial Banks. Again, for long-term investments commercial banks are considered as an unsuitable credit agencies due to composition of their funds accruing through deposits mostly payable on demand or at a short notice. The Commercial Banks, therefore, direct the borrowers requiring longer period loan to approach the Land Development Bank. The LDBs are expected to work as an agency for fulfilling the long-term credit needs of the cultivators.

In India, the land development banking was initiated in 1920 when the first Co-operative Land Mortgage Bank was organised at Jhang in Punjab (Now in Pakistan). A real beginning in this direction was made with the recommendations of the Registrar's Conference 1926, the

Royal Commission on Agriculture, 1928 and the Central Banking Enquiry Committee 1931. A Central Land Mortgage Bank was founded in Madras in 1929 followed by Mysore, Bombay, Orissa and Cochin. But the progress achieved prior to the All India Rural Credit Survey Committee was negligible. When the survey for rural credit was conducted in 1951-52, there were only six States where land mortgage banks were working with 289 primaries and loans outstanding were of about Rs. 8 crores.

The real growth of co-operative land development banks with State support started only after the publication of the report of the All India Rural Credit Survey Committee. The committee recommended the organisation of Central Land Mortgage Banks in all the States and stress was laid for reorienting their policies from financing old debts to provide finance for improvement of land development of agriculture. As a result thereof, the land mortgage banks switched over the function from mortgage banking to 'Development Banking' and Land Mortgage Banks were renamed as 'Land Development Banks or Agricultural Development Banks'. At the end of Second plan (1960-61), there were Land Development Banks in 18 States. At present, there are 25 States and 9 Union Territories in the country out of which land development banks are now functioning in 18 States and 1 Union Territory (Pondicherry). In one State (Meghalaya and two territories Goa and Delhi), there are separate sections in the state co-operative banks to look after long-term loans.

The All India Rural Credit Survey Committee, inter alia, recommended the establishment of Central Land Bank in each State which was incorporated in the Second Five Year Plan. The Second plan provided among other things for the organisation of a Central Land Mortgage Bank in each State where it did not exist and fixed an overall target of Rs. 20 crores for the long-term credit. Accordingly, an apex bank Uttar Pradesh State Co-operative Mortgage Bank Ltd., was organised in the State and registered on 12 March, 1959 on unitary pattern under U.P. Co-operative Societies Act; to make long-term finance available to farmers of the State on mortgage of land. The Bank was renamed as Uttar Pradesh State Co-operative Land Development Bank Ltd., in the Year 1967 to make its name consistence with its function. It is a pioneer Bank which introduced Agriculture Development Scheme in the State for the first time in the Year 1968-69 and latter brought Farm Mechanisation to the State at large scale. The Bank is working on unitary pattern and is operating through 334 branches covering all Tehsil/Block levels of the State. Besides there are 18 Regional Offices and 72 District Offices for the supervision of primaries by the end of 31st March 2002.

The name of the Bank was changed again on June 16, 1989 and renamed as, "Uttar Pradesh State Cooperative Agriculture and Rural Development Bank Ltd." to provide the finance to rural artisans and craftsmen and to promote the Rural Development Programmes. And again on June 9,

1994 the name of the Bank was changed according to the requirement, and named as "Uttar Pradesh Co-operative Village Development Bank Ltd.

Since its inception, the Bank has provided monetary support to the tune of more than Rs. 5702.85 crore to its 4205528 member farmers to enable them to modernise their agriculture and allied activities.

The management of Uttar Pradesh State Cooperative Village Development Bank Ltd. Has been discussed in chapter-IV.

The Bank has unitary pattern having its Head Office at Lucknow. At present, the Bank is operative through 334 branches at tehsil and block levels. In order to have effective supervision, the Bank has opened 72 district offices and 18 regional offices. District Offices formulate the bankable schemes in the district and also control and supervise branches in their respective jurisdiction.

The branches are administrative units at the base level. The main function of the branches are the disbursement of loans and its recovery. The main purpose of establishing banking offices is to help the area to develop it economically. The speedy development of these would imply provision of adequate credit to all persons of the area at the nearest point. Unfortunately what is being generally emphasized is the viability of branch in expansion policy only. As a result, the branch expansion could not take

place evenly among the State, i.e., the prosperous district have more branches.

The Bank heavily depends upon long-term resources for its working capital. It derives its working capital from both internal and external resources. Main internal and external resources are share capital and debentures respectively.

The Bank issues two types of share, viz., Type A-share of state Government and Type B-share of borrowing members.

As a matter of policy, members are allowed the adjustment of their share money in the repayment of last instalment which result in the decrease of the share capital of the Bank. We feel that the system may be replaced by making the share transferable and listing in the stock exchange. In our opinion, this action will help the Bank to win over the confidence of the public and of their members and thus, attract an increasing volume of deposits.

Borrowed capital is raised through flotation of debentures. The LDB can issue the three types of debenture; Ordinary, Special and Rural Debentures. The contributors of ordinary debentures are LJC, SBI, Central and State Government, Commercial Banks, Co-operative Institutions and sister LDBs while special debentures are subscribed by only the State Government and NABARD. This indicates that Bank has no problem in raising the resources from flotation of debentures.

Although the financial resources of the Uttar Pradesh State Village Cooperative Village Development Bank Ltd. are found adequate to provide adequate funds to the Bank for financing its lending operation, the sound lending policy requires the recycling of funds. In other words, saving of the borrowers should also be mobilised. The rural debentures which were proposed for tapping rural saving did not prove an effective instrument.

As regards the management of funds of the Bank, it is seen that there is huge amount in cash and bank account on one side and cash credit and overdraft accounts on other side at both Head Office and Branches. This is because of the attitude of the Bank is not using the money recovered for further lending which is based on their conservative thinking of keeping money very secure for redemption of debentures and contribution towards the sinking funds only. Similarly, the branches are maintaining three different accounts for different purposes and they are not empowered to transfer money from each other. In other words, the branches are bound to avail the cash credit and bank overdraft for loaning operations, although there is sufficient amount in the General and Recovery Account. Such practice is ultimately bound to block the liquid resources as well as resulting in loss of interest, as the Uttar Pradesh State Village Cooperative Village Development Bank Ltd. should not receive any return on cash and bank balance, while it has to pay the interest at higher rate on cash credit and overdraft accounts. The practice of maintaining

separate accounts for different purposes is an old technique of controlling diversion of money for other purposes which has been adopted by the Government Departments and Social Institutions, where the cost of funds has no consideration as they have to receive the funds on account of aids, grants, etc. In the case of Village Development Bank, dealing with borrowed funds, the maintenance of separate accounts is not justified as diversion of money can be controlled through modern financial techniques viz., funds flow statement, cash budgeting, etc.

Further, there is a huge amount of cash in transit every year, which indicates that present system is time consuming and also there are chances of loss in transit. The District Management have powers to distribute the funds to the branches as per their requirements, but they have no power to transfer the funds of one branch to another branch of the district even though the branches has the sufficient idle funds in its account and other is in acute need of funds.

Today, the Uttar Pradesh State Cooperative Village Development Bank Ltd. not only provides loans for traditional items like new wells, deepening of existing wells, lining of field channels, pumpsets, etc., under the NABARD and Government sanctioned schemes, but is also providing loans to other diversified purposes like horticulture and fruit plantation, dairy, poultry, sheep and goat etc., to make the State self reliant in terms of foodgrain production and to raise the living standards of the farmers

of the State. Since its inception, to 31st March 2002, the Uttar Pradesh State Cooperative Village Development Bank Ltd. has disbursed loans amounting to Rs. 5702.85 crore out of which Rs. 2901.96 crore have been for Minor Irrigation and Rs. 806.39 crore for farm Mechanisation and Rs. 1728.94 crore for diversified purposes.

The Uttar Pradesh State Cooperative Village Development Bank Ltd. has laid a great emphasis on simplifying its loaning policies and procedures so as to provide investment credit to a large number of agriculturists.

The intending borrower has to submit his loan application in the prescribed form initially to the Branch Office alongwith some necessary documents which are specified in the form. The Branch Manager sends these documents to the Central Office. The case is studied and the land valuation officer of the Bank verify the same from the revenue records and land on the spot, the extent and correctness of the demand of the loanee. After necessary verification, the land valuation office sends his recommendation alongwith the valuation of land. The case is legally examined and then placed before the committee of the Bank for sanction of loan.

Recovery of Bank dues is the most important factor for sustaining the growth of an institution. Though the Uttar Pradesh State Cooperative Village Development Bank Ltd. has maintained a good recovery performance which is

between 70 to 80 per cent during period under study. The recovery position shows the upward trend.

It may be mentioned that since all the activities of long-term financing is confined to the Head Office only the regular contacts between the Bank officials and the farmers is missing to a large extent. To improve the recovery position more, the Bank may take an early decision to amend its Act and Byelaws and incorporate enabling clauses in which the branches of the Bank are made responsible to recover the overdues of the Bank. Besides, other remedial measures like giving special recovery powers to the bank staff should be taken. Such delegation of powers to bank staff was found to be fruitful in other Banks like Maharashtra, Punjab etc., for improving recovery. State Government therefore, should consider to delegate the recovery powers to bank staff to speed up the recovery process in the State. It is also well recognised fact that to maintain regular contacts with the beneficiary borrowers of the Bank for overall supervision and recovery of the loan two wheelers play a very useful role. In this context NABARD has created a cooperative development fund to help/assist banks in their efforts to improve recovery etc. the Bank may approach NABARD for assistance in this regard.

There are many problems being faced by the Uttar Pradesh State Cooperative Village Development Bank Ltd. in the flow of credit, which are stated below:

In the entire area of Bank, the majority of borrowers have small land holdings and therefore, the Bank can not afford to invest more due to the linkage of shares with the loaning, the co-operative credit is not much popular with the borrowers. The borrowers do not give first preference to it since the other financing institutions have no such practices and thus, have upper hand in the field of credit. The researcher has observed that one of the main problem is the lack of knowledge of the borrowers about the co-operative credit. Most of the borrowers do not have proper knowledge about the co-operative credit. So they do not avail of the same. These include mostly illiterate and backwardness is one of the main problems in the flow of credit. Most of the illiterate people have not been utilising this loan to strengthen their economic position. They take it as sort of relief granted to them. It has also been observed that most of the cultivators do not have requisite and modern technical knowledge regarding proper utilisation of the agricultural inputs and fail to utilise full credit limits sanctioned for them. Frequent occurrence of natural calamities also affects the repaying capacity of the borrowers besides hindering the credit flow.

It has also been observed during survey that much time is consumed by the Bank in processing the application for the loan. In such cases farmers face difficulties in purchasing inputs and to meet their expenses like sowing and ploughing expenses. Inadequacy of amount of loan for the agriculture is yet another problem being faced by the

poor farmers. It has also been observed that banks have failed in satisfying the borrowers and borrowers are facing the problem of the non-availability of credit according to their requirements. Loans are not granted in sufficient amount, when they require. It is also seen that due to their inefficiency of loan, some borrowers have used the money for their domestic purposes and, therefore, become unable to repay to loan.

The Bank should make efforts to impart modern technical knowledge to the farmers regarding proper utilisation of agricultural inputs, so they can utilise full credit limit sanctioned in their favour. The problem of proper use of the funds can also be removed by guiding the cultivators. The Bank should provide necessary guidance to the farmers in using the funds properly. It has been found that illiteracy has been one of the main problems for the Bank to achieve its objectives, the illiterate and ignorant farmers should be made aware of the banking facility available in their areas. As most of the rural people are illiterate and ignorant about the policies of the Bank, the Bank should frame different programmes and schemes explaining the importance of LDB finance. These programmes should be broadcast. This will play an important role in the development of both Bank and beneficiaries. Another equally important suggestion is the need for effective credit evaluation. The unit/project for which loan is demanded should be evaluated adequately and if found genuine, should be sanctioned. Another vital

step towards effective functioning of the Bank may be that there should be a committee of officials both at the field and head office, to visit the field and inquire about the correct position of loan requirement and money disbursement in the light of aims and objectives of the Bank. Therefore, the study concludes that Development Banks has played a vital role in improving and maintaining the economic condition of the farmers and other rural people.



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2002**



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Dedicated

To

My Parents .

Dr. Imran Siddique

B.Sc., D.B.A., M.Com, Ph.D.
(Sr. Lecturer)

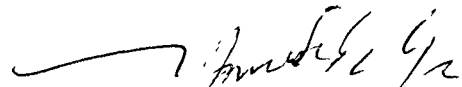


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Dated 27/12/20

Certificate

I hereby certify that the thesis entitled "*Role of Uttar Pradesh State Co-operative Village Development Bank Ltd. in the Agricultural Development of U.P. with Special Reference to Aligarh District*", submitted by *Mr. Siraj Ahmad* is an original contribution to the existing knowledge on the subject matter. It conforms to the requirements for the award of Ph.D. degree in this University.


Dr. Imran Siddique
(Supervisor)

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(SIRAJ AHMAD)

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Abbreviations Used

Abbreviations Used

A.C.R.C.	Agriculture Credit Review Committee.
A.R.D.B.	Agriculture Rural Development Bank.
A.R.D.R	Agriculture Rural Debt Relief.
C.C.L.D.B.	Central Co-operative Land Development Bank.
G.O.I.	Government of India.
I.D.A.	International Development Association.
I.D.B.I.	Industrial Development Bank of India.
I.R.D.P.	Integrated Rural Development Programme.
L.D.B.	Land Development Bank.
L.M.B.	Land Mortgage Bank.
L.T.	Long Term.
M.T.	Medium Term.
NABARD	National Bank for Agriculture and Rural Development.
N.E.C.	Non-Encumbrance Certificate.
N.H.B.	National Housing Borad.
N.P.A.	Non-performing Assets.
P.A.C.S.	Primary Agricultural Credit Societies.
P.A.R.D.B.	Primary Agricultural and Rural Development Bank.
P.L.D.B.	Primary Land Development Bank.
R.B.I.	Reserve Bank of India.
R.R.Bs.	Regional Rural Banks.
S.C.A.R.D.B.	State Co-operative Agriculture and Rural Development Bank.

S.L.D.B.	State Land Development Bank.
S.T.	Short term.
V.R.S.	Voluntary Retirement Scheme.

Introduction

INTRODUCTION

With a better understanding of the need for rural development in the State's programmes of overall economic development, considerable interest has been generated in this subject in recent years. The State Government has been making efforts for improving the Village economy and the measures undertaken although laudable, did not meet the desired needs of the rural society. In the sphere of credit, the major stress of the Government policy has been on increasing the availability of credit to all classes of rural borrowers especially those belonging to the weaker sections, in terms better the usurious rates charged by money lenders. Keeping this in view, the Government considered it necessary that banks should also play their legitimate role in the promotion of the rural economy. The rural credit requirements and the spread of banking activities have received special emphasis at the hands of the Rural Banking Inquiry Committee and the Committee on Direction of the All India Rural Credit Survey. A final push in this direction was given on 19th July, 1969, through nationalization of commercial banks with clear objective like extension of credit to those sectors of the economy which were neglected till that date, encouragement to new entrepreneurs and the removal of regional disparities in the spread of banking and promotion of rural development. Due to various reasons, the commercial banks did not extend their activities much in rural areas. It was felt that rural credit needs were to be met essentially by the co-operative and other development agencies set

up primarily for the purpose. With the paramount importance attached to the co-operatives, in serving the credit needs of the rural areas, the Government's endeavour has been to strengthen the multi-tier cooperative credit structure in the State.

Rapid development and growth of agriculture has been one of the principal tasks in which the developed States have been engaged over the last four decades. Once all the cultivated land is brought under the plough, intensive farming is the only way to increase farm production, this entails application of science and technology to land by adopting the innovations, which usually require the shift to the use of modern farm inputs and assets from those of traditional ones. Hence, modernisation of agriculture leads to increased capital investment on land. As most of the farmers do not have resources of their own to finance the process of modernisation, they have to rely heavily on borrowings. In other words, farm credit plays a pivotal role in accelerating agricultural development. For this, long-term credit is required which should not only be adequate and cheap but also development oriented. Obviously, this type of credit is not likely to be provided by the private money-lending system on account of its own limitations. This has put forth the need for developing a suitable institutional credit system which provides the right type of farm credit in adequate quantity at the right time.

The development of such an agency for providing long-term finance for investment in agriculture in Uttar Pradesh was initiated during sixties of this century. At that time, this type of Bank was known as 'Land Mortgage Bank' because the purpose of granting loan was mainly for redemption of prior debts by mortgaging the

land. This Bank has undergone various transformations, over the last four decades and has come to stay now as “State Cooperative Village Development Bank”. This Bank caters to the needs of credit for investment in agriculture on easier terms. The main purpose for which long-term credit is made available to the eligible farmers by these banks are:

- (i) Loans for creating irrigation facilities like construction of new wells, repairs of old wells, purchase of oil engines, electric motor pumps, laying down pipe lines, etc.;
- (ii) Loans for land development like levelling of land, bunding, fencing of farms; and
- (iii) Loans for purchase of agricultural machines like tractors, power-tillers, threshers, etc.
- (iv) Loans for non-farm sectors like, horticulture, fisheries, Animal husbandry, Rural Housing etc.

In addition to this, the Uttar Pradesh State Cooperative Village Development Bank Ltd. issue loans for S.R.T.O. horticulture development and purchase of loan. Of late, Uttar Pradesh State cooperative Village development Bank Ltd. has taken up financing for diversified purposes like development of poultries, fisheries, diaries, erection of gobar gas plants, etc., to bring viability to small and marginal farmers and to other weaker sections of the society in an increasing manner. It has become very essential in the context of social objectives of five-year plans. Uttar Pradesh State Cooperative Village Development Bank Ltd. has diversified their operations to cover activities connected with agriculture and subsidiary occupations on particular and rural development in general.

A new vista was opened in the field of long-term agricultural credit by the establishment of Agricultural Refinance and Development Corporation in the year 1963 which was heavily assisted by the International Development Association (IDA), an affiliate of the World Bank, since 1973. This proved to be a powerful engine for the accelerated progress of Co-operative Village Development Bank in the State. As a result thereof Uttar Pradesh State Cooperative Village Development Bank Ltd. could expand their financial activities rapidly, facilitating agricultural development to considerable extent. This helped in bringing about green revolution in our State. The rapid expansion in the activities of this institution has brought to the fore a number of shortcomings in its working. One of the major problems before these banks is of overdues. The problem is so gigantic that, of late, World Bank has refused to finance the VII phase of loaning programme of the Bank. All this has made it necessary to investigate the working of this institution and find out whether this institution can prove an adequate and efficient machinery to shoulder the responsibility of increasing requirement of finance for agricultural development.

Hence, an attempt has been made in this study to evaluate the lending policies of Uttar Pradesh State Cooperative Village Development Bank Ltd. in respect of agricultural developments.

Statement of the Problems

Although the operations of Uttar Pradesh State Cooperative Village Development Bank Ltd. have expanded sizably over a period of time, there has not been significant improvement in

qualitative terms and they continue to suffer several financial, organisational and operational problems affecting their viability. They are beset with several weaknesses such as low level of credit business. High cost of management, inadequate margins on loaning operations and low productivity. There is much to be desired in the democratisation in management, human resource development and systems and procedures. Thus in a competitive environment that is emerging, these banks have to revamp their operations and functions as viable units and only then they will be able to achieve the basis objective of meeting effectively the long-term credit demand of both farm and non-farm sector activities in the State.

Uttar Pradesh State Cooperative Village Development Bank Ltd. operating in Uttar Pradesh is no exception to the above-enumerated problems. In spite of the paramount importance attached to this Bank in the development of agriculture, it is not showing the desired degree of success.

Review of the Literature

Since the review of the related literature is a vital pre-requisite for the actual planning and execution of any research work. Thus every well-planned research is proceeded by a review of related literature. It not only allows the researcher to acquaint himself with current knowledge in the field or area in which he is going to conduct his study but describes the procedure for organising the related literature in a very systematic manners, it determines and defines the limits of one's field and help in *suggesting the area and scope for further research*. The following reviews of the literature have been done for the purpose: —

- (1) **Panandikar S G (1975)¹** in his book entitled “Banking in India” explained that one of the important objectives of bank nationalisation was to channelise the flow of credit to the priority sectors or hither neglected sectors. The nationalised banks have made marked progress in this direction. He also mentioned that the share of priority sector in the total credits of the public sector banks increased from 15 percent in June, 1969 to 25 percent at the end of December 1973. Between June, 1969 and September, 1972, the number of borrowers account with the public sector banks under priority sector viz., agriculture, small scale industries, road transport operators, retail trade and small business, professional and self employed persons and education rose from 2.6 lakh to 15.59 lakh. Again the advances by public sector banks to the priority sector increased from 438 crores in June 1969 to 1367 crores in September 1973. Finally, he pointed out that the agriculture and small scale industries together accounted for nearly 80 percent of the total credit extended by public sector banks to the priority sector in this period.
- (2) Another book entitled “Banking Policy in India”: An evaluation by **Ghosh D N (1979)²** explained that the credit to priority sector recorded a sharp increase under the impact of

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1. Panandikar S G, “Banking in India”, Orient Longman, New Delhi, p.594.
 2. Ghosh D N, “Banking Policy in India: An Evaluation”, Allied Publishers, Bombay, 1979, p.268.

nationalisation. The sector to which credit mainly followed were agriculture, small scale industries and export, but a few new categories came to be added, namely road transport operator, professional and self employed persons, retailed traders and education.

- (3) **Desai Vasant (1979)**³ in his book entitled “Indian Banking” clearly explained the scheme of social control over banking which was introduced in 1968 with the main objectives of achieving a wide spread of bank credit, preventing the misuse directing a large volume of credit to priority sectors and making it a more effective instrument of economic development. It was considered necessary to evolve proper guidelines for bank management and to promote a re-orientation of their decision making machinery, so that the decision of monetary and credit policy formulated by the Reserve Bank of India could be effectively implemented. It was also felt that a purposeful and equitable distribution of credit should be ensure with the help of periodical assessments of the demand for the bank credit, determination of priorities for lending and investment among various sectors of the economy.

3. Desai Vasant, “ Indian Banking”, Himaliya Publishing House, Bombay, 1979, p..178-182.

- (4) **Bhat N S (1982)⁴** in his paper entitled "Priority Sector Financing" pointed out that after the nationalisation, commercial banks extended credit to priority sectors like agriculture, small scale industries and the retail trade, self employment scheme, education etc. These sectors are now popularly called the priority sector of the economy and increasing participation by the commercial banks in financing productive activities in these sectors. Since bank nationalisation presents a marked shift in credit activities of commercial bank in the country, financing of the priority sectors on increasing scale required to meet the need of rapid economic development, prices stability and social justice. He also pointed out that increasing flow of credit had the desired affect on agricultural production. The author was also of the view that the small scale and cottage industries, retail trade were denied of their genuine bank credit. Finally the author suggested that commercial bank should give up the traditional commercial loan theory while granting loans.
- (5) A paper entitled "Analysis of Credit Planning by Banks" contributed by **Singh, R.R. (1982)⁵** analyses that after nationalisation of commercial banks and adoption of the various measures of credit planning through credit

4. Bhat, N.S., "Priority Sector Financing", Modern Banking in India, edited by Subrahmanya, K.N., Deep & Deep Publications, New Delhi, 1982, pp. 74-83.

5. Subrahmanya, K.N., op.cit, Singh, R.R. "Analysis of Credit by Banks", p. 87.

deployment in favour of the priority sector has increased from 14.6 percent in 1969 to 32 percent in 1979 of the total advances. In a country like India, the objective of credit planning is not merely to allocate more credit to priority sector of the economy but to the priority section of the society, i.e., the weaker sections consisting of small and marginal farmers, agricultural labourers and poor artisans class. The allocation of credit in the agricultural sector has largely benefited the big farmers and affluent sections of the population. Within the banking industry the RBI, at the national or aggregate level, may think of providing cheaper credit to the priority sectors but an individual bank may take a somewhat restrict view of things. The author finally mentions that for the success of economic planning, credit planning has become a catalytic element because availability of credit to the various priority and proper adjustment between the supply of and demand for credit lubricates the mechanism of the development plan as well as keeps inflation under control.

- (6) Yet another paper entitled “A Decade of Nationalised Banking”, by **Singh, R.R., (1982)**⁶ reveals that as a result of various measures, the sectoral distribution of credit has undergone a marketed change in favour of the priority sectors and the small borrowers. A target placed before the banks in this regard was to raise the level of their advance to priority sectors to 33.33 percent, the amount outstanding

6. Ibid.

being Rs. 4991 crores. In June 1969, priority sectors advances of these banks amounted to Rs. 441 crores accounting for 14.9 percent of total advances. Among the priority sectors advances agriculture (direct and indirect) covered 13.4 percent in December 1978 as against 5.5 percent in June 1969, whereas the share of small scale industries increase to 12.8 percent from 8.5 percent in the same year.

- (7) A study entitled “Changing Scenario Over Decade” by **Devi, R.A.K. (1982)**⁷ analyses that commercial banks have been under pressure from the Government to setup advances to priority sectors comprising – agriculture, small industry and other welfare measure. Priority sectors advance rose from Rs. 504 crores in June 1969 to Rs. 6729 crores in March 1980, taking their share from 14 percent to 31.7 percent. Although this was lower than the target of 33.33 percent the commercial banks were required to achieve before March 1979. The share of agriculture rose from 5.2 percent to 13 percent while the share target medium industries decline from 52.2 to 39.2 percent. While financing priority sector schemes emphasis has been on meeting the financial requirements of their weaker sections of the society like small farmers, marginal farmers, landless labourers, rural artisans, small entrepreneurs etc.

7. Subrahmanya, K.N., op.cit., Devi, R.A.K., “Changing Scenario Over Decade”, p.23.

- (8) Another paper entitled “Banking and Economic Growth” by **Jha K P (1982)**⁸ reveals the main objectives of nationalization of major commercial banks were to provide adequate credit to the neglected sector like agriculture small industry, are export industry. In June 1969, advances to the designed priority sector formed only 15 percent of the total advances of the nationalized banks and SBI Group. Since nationalized, the commercial banks continued to extend liberal credit facilities to the priority and neglected sector of the economy. A part from financing public food procurement and export, commercial banks continue to extended liberal credit facilities to the priority and neglected sectors. Their lending under differential interest rates to the weaker section of the borrowers also went up considerably. With a view to enlarging the flow of bank credit to neglected sectors, Government has advised public sector banks to make effort to increase the proportion of neglected sector advances to the level of 33.33 percent by March 1979.
- (9) An article written by **Patnaik SC 1982**⁹ entitled, “New Dimension of Commercial Banking”, mentioned that the Reserve Bank has advised the public sector banks that priority sectors in the economy and advances under special

8. Ibid

9. Ibid.

schemes together account 33.33 percent of the aggregate advances by March 1979. The schedule commercial banks now required to play a dynamic role in achieving the plan objectives by providing institutional credit support to various programmes of development in the priority sectors for increasing productivity and employment.

- (10) **Angadi V B (1983)**¹⁰ in his article entitled, "Bank advances to Priority Sectors: An Enquiry into the Causes of Concentration", pointed out that the policy on priority sectors advances assumed great significance after nationalisation of commercial banks in 1969. The policy has come to be regarded as one of the most important policies aiming at attaining the socio-economic goals. As a matter of fact, the concept of priority sectors advances was formulated as early as in 1968 before the scheme of social control over the commercial banks was launched. The principal objectives of new scheme were to achieve a wide spread of bank credit, avoiding concentration and directing a large volume of credit flow to hitherto neglected sectors. In 1979 the commercial banks were advised to enlarge the flow of credit to the priority sectors so as to raise their share in aggregate credit to 33.33 per cent by the end of March 1979. Subsequently in 1980 this ration has been raised to 40 per cent, to be achieved over a period of five

10. Angadi V B, "Banks Advances to Priority Sectors, Economic and Political Weekly, Vol. XVIII, No. 13 (March 26, 1983) p. 503.

years (by March 1985). It has been recognised that that distribution of priority sectors advances of scheduled commercial banks has not been equitable among the different sections within the respective sectors. Therefore, scheduled banks have been directed that, in the agricultural sector, not less than 50 per cent of the banks' lending to agriculture should go to weaker section by 1983. In the small scale industry sector, the weaker section should get 12.5 per cent of the total advances by 1985 as against 6.25 per cent. Similarly in other priority sectors, certain conditions were imposed on lending for the benefit of the weaker section in the respective sections. Finally, the author find the distribution pattern of priority sector advances, among the state, reveals that neither their growth during the period nor their portion to total credit in the respective state was uniform and equitable. In Orissa, Bihar, Haryana, the share of priority sector advances in the total bank credit in these sectors shot up significantly from 11.2 per cent to 49.9 per cent, 9.1 per cent to 49.7 percent, and 28.2 per cent to 60.9 per cent, respectively. The share of priority advances in the bank credit in the respective states was highest (72.7 per cent) in Jammu and Kashmir).

- (11) Agarwal A N (1985)¹¹ in his book entitles " Indian Economy Problems, Development and Planning" pointed out

11. Agarwal A N, "Indian Economy Problems, Development and Planning", Vikas Publishing House Pvt. Ltd., New Delhi, 1985, p. 553.

that after improvement in banking system, commercial banks have devoted special attention to the hitherto neglected sectors. These include agriculture, small scale industries, small business including retail trade, road transport operators, self employed persons and professional etc. The total credit which these sectors could get in 1969 was just Rs. 505 crores. This increased rapidly by as much as 25 times to stand at Rs. 12565 crores in June 1983. As a result, its share in total advances of commercial banks rose from 14 per cent. Within the priority sectors agriculture, small scale industries and small business account for a major share. In the case of agriculture the advances measured from Rs. 188 crores to 3356 crores. As a result, its share of total credit to the priority sectors improved from 5.7 per cent to 15.1 per cent. Similarly, in the case of small scale industries the bank credit rose from Rs. 294 crores to Rs. 7209 crores, with its share rising from 8.7 per cent to 20.4 per cent.

- (12) **Singh J P, Chakarvarty and Atibudhi (1988)**¹² in their book entitled “ Rural Banking” explained that one of the major objectives of bank nationalisation was to expand the horizon of banking in rural areas in order to identify themselves with the problems of cultivators and making banking as an instrument for bringing about the social and economic transformation of rural economy. For this purpose, the have diverted increasing credit flow to priority

12. Singh J P, Chakarvarti and Atibudhi, “Rural Banking” Himalaya Publishing House, Bombay, 1988, p. 76.

sector and hitherto neglected sectors of society. Total advances of public sector banks to priority sectors increased to Rs. 20544 crores at the end of December 1985. As against the national target of 40 per cent for priority sectors advances of December 1985. In June, 19869 priority sectors advances constituted only 14.6 per cent of the total bank credit. Within the priority sectors, the share of agriculture in total credit of public sector banks has increased from 5.4 per cent as in June 1969 to 18.2 per cent by December 1985. The share of direct finance to total credit has particularly increased from 1.5 per cent to 15.3 per cent. The share of small industrial sector in aggregate credit has increased from 8.3 per cent at the time of nationalisation to 15.3 per cent by December 1985 and retail trade and small business from 0.6 per cent to 8 per cent. The author also mentioned that banks were directed to step up their direct finance to agriculture to 15 per cent of their total advances by March 1985. In keeping with this directive, banks credit to agriculture as portion of total bank credit reached the level of 15 per cent. This further expected to raise to 16 per cent by March 1985.

- (13) **Srivastava R M (1991)¹³** in his book entitled “Management of Indian Financial Institution” observed that the objectives of nationalisation of banks was to direct large volume of

13. Srivastava R M, “Management of Indian Financial Institutions, Himalaya Publishing House, Bombay, 1991, pp.235-36.

credit flow of the banking sector into the priority sector. He also described the new credit policy by the banks. The bank would pursue the production nexus approach instead of the assets nexus approach while dispensing assistance to the priority sectors. For example, the viability of the project would be judge on the basis of whether the incremental income that would be generated by undertaking an activity with the help of bank finance would be sufficient to ensure the repayment of the loan. He also mentioned that the bank would not insist on security and personal guarantee for loan purposes. Priority sectors would receive lending facility on relaxed terms and conditions. Under the new policy, a commercial bank would entertain viable proposal even for composite finance. The banks were also asked by the Reserve Bank of India to adopt target oriented programmes for financing priority sectors. The public sector banks were advised to enlarge the flow of credit to priority sectors, so as to reach a level of 33.33 per cent of their outstanding credit by the end of March 1979. Subsequently, in 1980, this ration was raised to 40 per cent to be achieved over a period of five years (by March 1985). With a view to ensuring an equitable distribution of bank credit among the priority sectors, they have been directed to lend not less than 16 per cent of the total bank credit facilities to the agricultural sector by 1985. Now this has been raised to 17 per cent. Further, direct advances to weaker section in agriculture should reach a level of at least 10 per cent of the total lending to agriculture and allied activities by 1985. He pointed out the

various schemes launched by the commercial banks to support priority sectors.

- (14) **Preet H S (1993)¹⁴** in thesis entitled, "Social Banking in Patiala, District discussed that in November 1974, the banks were advised to raise the share of priority sector in their aggregate advances to the extent of 33.33 per cent of their total advance over a period of 5 years. In 1980, the target for priority sector advances of the public sector banks was raised to 40 per cent to be achieved by March 1985, out of which not less than 16 per cent (of the total advances) was to be advanced for direct agricultural. No upward revision in the overall target of priority sector has been made since it was fixed in 1980. However, the target for direct agricultural advances was raised to 17 per cent in 1988 and further 18 per cent in 1989. He also mentions that the commercial banks are suppose to lend 25 per cent of priority sector advances (10 per cent of total banks credit) to the weaker sections of the society. As at the end of June, 1990 advances to weaker sections by public sector banks aggregated to Rs. 10,086 crore which constituted 11 per cent of their total bank credit as against a target of 10 per cent.

14. Preet H.S., "Social Banking in Patiala District, The thesis Submitted at Punjabi University for the award of Ph.D, 1993, pp. 89.91.

(15) **Patel S G (1994)**¹⁵ in his thesis entitled “Role of Commercial Banks Lending to Priority Sectors in Gujrat: An Evaluation” explained that bank lending in India has moved away from financing trade to financing industries. In recent years, several new claimants for bank credit have emerged and banks now finance small scale industries, agriculture and the weaker section of the economy. He mentioned the role of commercial bank lending to priority sectors in Gujrat has been undertaking with the objective to evaluate the growth of commercial bank. In Gujrat, to know the modus operandi of priority sectors lending by the commercial bank, to analyse progress made by commercial banks to make an indepth study of priority sector lending of the selected banks in the State and to suggest ways and means for improving the quality lending to this sector. He also mentioned that priority sectors advances of public sectors bank increased from Rs. 441 crores in June 1969 to Rs. 44995 crores in June 1992. The study also analyses the overall performances of commercial bank in financing priority sectors in Gujrat.

(16) **Juneja N K (1996)**¹⁶ in his book entitled “Qualitative Strategies For Social Landing” explained that since

15. Patel S G, “Role of Commercial Bank Lending to Priority Sectors in Gujrat: An Evaluation”, The Thesis submitted at Sardar Patel University for the award of Ph.D, 1994, pp. ii-iii.

16. Juneja N. K., “Qualitative Strategies For Social Landing”, Sun Publishers, New Delhi, 1996, pp. 19.

nationalisation of banks, flow of credit has been increase tremendously to the neglected sectors as well as to the weaker sections of the society and promoting their economic welfare. The could be possible through the expansion of vast number of branches in rural and semi-urban areas to achieve the objective. The author also pointed out the lending norms of priority sectors for smooth flow of credit to different segments of priority sectors.

- (17) **Misra S. K. Puri V. K. (1997)**¹⁷ in their book entitled, “Indian Economy”, explained that before bank nationalisation, the lending policy of commercial banks was highly discriminatory. Their anti-small borrowers bias was obvious, and they generally ignored the claim of small-scale industries in respect of credit. Hence agriculture, small-scale industries and other priority sectors fail to get the required bank credit in spite of their importance in the country’s development planning. Late on the scheme of social control over banking was introduced under which banks were required to allocate bigger amount of credit to the priority sectors. In February 1968, the National Credit Council was setup with a view to provide a forum for deciding priorities on all India basis. These measure were soon found inadequate and the Government thus resorted to nationalisation of major 14 banks. The extension of credit to small borrowers in priority sector was test of success. In the

17. Misra S. K., Puri V. K., “Indian Economy” Himalya Publishing House Bombay, 1997, pp. 767

past very little bank credit was available to agriculture. Aggregate finance to agriculture amounted to Rs. 162.3 crore at the end of June 1969. Since then bank finance agriculture has increased considerable which is evident clearly from the fact that the outstanding bank credit to agriculture on March 28, 1997 was Rs. 30874 crore. Importance of small-scale industry in this country has been underlined from time to time on account of its employment potential. Its survival and growth, however, depends largely on the available its of finance from the organised banking sector. On March 28, 1997 there was an outstanding balance or Rs. 34113 crore. Among others, road and water transport operators, retail traders and small business, professional and self employed persons are some important categories of people who have considerably benefited since nationalisation. The amount of again to this sector is clearly from the fact that the aggregate amount outstanding stood at Rs. 17001 crore on March 28, 1997 as against Rs 23 crore on June 30, 1969.

- (18) Varde Varsha (1997)¹⁸ in his article entitled, "Rural Banking From paper Nationalisation to Rationalisation" examines that after nationalisation commercial banks have succeeded in broadly achieving the targets at before the industry of achieving 60 per cent credit deposit ratio to rural areas, 16 per cent of total credit going to the agricultural, 40 per cent of the total credit going to the

18. Ibid.

priority sectors, opening about 70 per cent of the branches in rural and semi-urban areas. This has helped in creating large-scale and wide spread presence of banking in rural areas, mobilising large resources and providing increase access to credit to rural population including small farmers, small industries and weaker sections of the society.

- (19) **Mohapatra U. C. (1997)¹⁹** in his article entitled, “Rural Banking: For Sustained Profitable Growth” mentioned that after the nationalisation of commercial banks, the hitherto neglected sectors of the economy received much attention and financial helps from the banks. With an extensive branch network public sector banks can not afford to neglect this sector. In this article the author suggested that banker must reorient their attitudes and develop a positive outlook for neglected sectors to meet the emerging.
- (20) **Chandra A.S.(1997)²⁰** in his article entitled, “Rural Banking Changing Scenario”, mentioned the concept of lending to priority sectors which formed the backbone of rural economy. The financing of priority sectors by banks involved concessionality in interest rate. The author also pointed out the several changes in the priority sectors lending which included: (a) enhancement of small scale

19. Ibid.

20. Subramanian, K. Velaudham T. K. op. cit., Chandra AS, “Rural Banking Changing Scenarios”, pp. 519.

industries limits to Rs. 60 lakh from Rs. 35 lakh and increase in limit to Rs. 70 lakh in respect of ancillary export oriented units. (b) the target of 18 per cent of net bank credit to agriculture had been made applicable. (c) bringing housing loan up to Rs. 2 lakh per cent borrower. (d) reduction in concessionality of interest rate on larger loans of priority sectors. The author suggested that the financial sector reforms initiated in the early 90's particularly for priority sectors, may have to be carried further for effective credit system.

- (21) An article entitled, "Evaluation Studies on Financing Weaker Sections" by **Khankhoje, D. P. (1997)**²¹ Explained the involvement of bank in financing many activities under priority sectors. There is a need for the comprehensive evaluation of the performance of those lending activities at the individual bank level as well as the industry level. The Report of the Working Group on priority sectors opines that the individual banks need to make impact studies of the specific scheme financed by them. The report also mentioned that it was necessary that impact studies of financing in specific areas, covering all the schemes should be made on a continuous basis to ascertain the problems encountered in the preparation and implementation of those schemes. During the last few years concerted efforts have been made by commercial banks at the instances of

21. Ibid.

- (22) **Bedi R.D.** (1985)²² in his book entitled “Cooperative Agricultural Development Banking in India”, has written in his book about the cooperative agricultural credit provided by different cooperatives in India. He has explained the historical background of agricultural cooperative in India. The agricultural development in India so far has been discussed by him.
- (23) **Bedi R.D.**,²³ in his book entitled “Cooperative Land Development Banking in India”, has briefly explained the historical background of Land Development Banking in India. He has also explained the performance given by the Land Development Banks since their establishment and the progress made by them.
- (24) **Chaubey, B.N.**,²⁴ in his book “Agricultural Banking in India”, has described the banking engaged in India. He has also described the structure exist for agricultural financing in India and the steps taken by the Government of India in this connection.
- (25) **Ghosal S.N.**,²⁵ in his book “Agricultural Finance in India”, has described about the agricultural financing in India and the need of agricultural credit in India. He has given a brief history of agricultural financing in India.
- (26) Another book entitled “Problem of Agricultural Development in India”, by **Jain, S.C.**,²⁶ has described the problems faced by Indian Agriculture and in its development.

22. Bedi, R.D., “Cooperative Agricultural Development Banking in India”, N.C.U.I., New Delhi, 1985.

23. Ibid.

24. Chaubey, B.N., “Agricultural Banking in India”, National Publishing House, New Delhi, 1953.

25. Ghosal, S.N., “Agricultural Finance in India”, 2nd Ed., Asia Publishing House, Bombay, 1972.

26. Jain, S.C., ‘Problem of Agricultural Development in India, Kitab Mahal, Allahabad, 1967.

refinancing agencies e.g. (NABARD) and credit regulating institution e.g. (RBI) to evaluate a large number inter-related projects undertaken by them as a part of their social intervention. At present, more than 350-evaluation study reports are available which cover a wide range of activities and programme. These can be classified into four categories such as: (a) Activity specific like poultry, sheep rearing etc; (b) Target specific such as IRDP beneficiaries, small farmers, SC/ST, etc; (c) Scheme-specific, e.g. TRYSEM, SEEUY etc; (d) Area specific, viz. a district, a block, a cluster of Village etc. Financing the weaker sections of the society has its own peculiar features, which the banks have experienced over the years. Finally the author suggested that the systematic evaluation of various lending programme is necessary for implementation to ensure efficiency and effectiveness.

OBJECTIVE OF THE STUDY

The aims and objectives of the present study are:

- (i) To analyse the Agricultural Cooperative credit and growth of land Development Banking in lands.
- (ii) To study Cooperative Development Banking in Uttar Pradesh and evaluate the working of Bank in terms of its underlying objectives.
- (iii) To examine the organisational and managerial aspects of the Bank.
- (iv) To study the methods and procedures employed in collection of share capital, deposits and borrowings and to assess

their effectiveness. It also covers the assessment of the management in mobilising of resources.

- (v) To examine the lending policies and procedures adopted by the Bank.
- (vi) To explore the management strategies in recovery of advances and to evaluate its practice.
- (vii) To explore the problems being faced by the borrowers in getting the assistance and subsequent repayment dues to the Bank.
- (viii) To analyse the problem of overdues in its various aspects and suggest measures for reducing them.
- (ix) To highlight the role played by the Bank in agricultural development.
- (x) To identify the problems and suggest on the basis of study results, the proper working mechanism and outline their implications for the Bank and the borrower.

Hypotheses

In the light of above objectives, the following set of the hypotheses has been formulated for verification and confirmation:

- (i) The working of Bank is not in accordance with the objectives that have been established.
- (ii) Loaning policies and procedures adopted by the Bank are not based on scientific lines.
- (iii) There is a considerable delay in sanctioning and in disbursement of loans.
- (iv) Overdues effects the lending eligibility of the Bank.

- (v) Rate of interest is high and farmers are not in a position to repay instalments within stipulated time.
- (vi) The economic, financial and managerial aspects of the Bank are very weak.
- (vii) The Bank if conducted on efficient and effective guidelines will become strong and will definitely contribute towards economic upliftment of the people.

Materials and Methodology

(a) Sample Design

Uttar Pradesh State Cooperative Village Development Bank Ltd. operating in Uttar Pradesh for providing long-term credit needs to farm and non-farm activities has been selected for making an indepth analysis to assess management, economic and financial aspects, policies and procedures adopted and the role played in the agriculture development in Uttar Pradesh. Head Office operating in Uttar Pradesh is selected for detailed study and Aligarh District Branch office is selected for indepth study. Out of the total number of beneficiaries/members provided financial assistance during the last three decades through these branches, an appropriate number of samples were selected at random for indepth analysis.

(b) Data Source

The data for the study were obtained both from primary and secondary sources. The main sources of secondary data were published data and literature, as well as first hand information collected by personal visits to the Head Office at Lucknow,

District Office and Branch Office of Uttar Pradesh Co-operative Village Development Bank Ltd., Aligarh Moreover, data have also been collected from various departments of Uttar Pradesh Government viz., Economics and Statistics Divisions, Directorate Agriculture Department of Co-operation, Registrar Co-operative Societies, all located at Lucknow. Published data were also taken from publications of the Reserve Bank of India/NABARD, National Co-operative Land Development Bank federation Ltd. Mumbai, Census Reports, and Five Year Plans of Uttar Pradesh Besides these main sources, other books, reports and records have also been used for collecting relevant information for which due acknowledgement has been in the thesis.

The primary data for the study was collected from the Bank under study and the borrowers of the Bank. Personal discussions were held to benefit from the views and attitudes of banking authorities/ official working at head office/branch office and the borrowers.

(c) Tools of Analysis

The management, economic and financial technique were employed to assess the economic aspects, management expertise and financial viability of the Bank under study. The data thus collected from primary and secondary sources has been tabulated, analysed and interpreted with the help of various statistical tools to arrive at objective and dependable conclusions.

Chapter - I

*Agricultural Co-operative Credit
in India*

CHAPTER – I

AGRICULTURAL CO-OPERATIVE CREDIT IN INDIA

Agriculture is the backbone of human life and society. Human need is fulfilled basically with the agricultural produce. Even as much scientifically developed societies as we are in the space age today, can not live without the food and fodder. All the other developments, scientific and industrial or otherwise, are based upon the agricultural produce in direct or indirect manner. In fact the economic development can not be visualised without the strong agricultural sector. No society can dispense with the agricultural phase of existent. Agrarian economy is the basis of all possible developments. Even 2000 years back it has been said and emphasised that the agriculture is the basis of the whole social order.¹ Thus, agriculture has all along been recognised as the first and foremost of all the industries universally.

Agriculture has, thus, been the primitive occupation of man. But peasantry is however, very risky of all the professions, because of the uncertainty of the result of about three to four month's hard labour. With this nature of agriculture the human civilisation has given much emphasis to the importance of conditions and reforms of the agriculture sector.² In our own

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1. "Cambridge History of India" Cambridge University Publication, London, 1935, Vol. I, p. 218.
 2. "Strategy of Indian planning" Government of India, First Five Year plan, (1951-52 to 55-56), p. 11.

country full attention towards the agricultural development was paid only a few decades back and in Uttar Pradesh even much after that. India after freedom faced a severe scarcity of food grain. The country having been partitioned the wheat, cotton and rice surplus area was separated, with the result that for more than a decade after freedom the nation had to live on the red wheat of low quality spared by America. Uttar Pradesh faced the worst situation being over populated. Thus the agriculture production had to be developed to such level that we are able to produce as much as suffices the need of the nation. Land already under cultivation had to be developed for better yield and waste land had to be made cultivable and more and more land had to be brought under cultivation by removing forests etc. At the same time new pieces of woods and pastures had to be raised up. Also rural credit had to be provided in order to achieve the goal. Individual Source did not have courage of making investment in agrarian economic due to lack of certainty. The Village money lender was an antique of Indian civilisation.

Thus the absence and shortage of Credit Money to be readily available on reasonable term to the peasants and cultivators in India and particularly in Uttar Pradesh has since long remained a hurdle in keeping "up to the mark farming".³ The credit available to the rural sector from the individuals on high rate of interest and other high handedness, resulted in growing indebtedness of the farmers. This has remained the cause of chronic insufficiency of

3. 40 per cent of the total population below poverty line in Uttar Pradesh, National Survey Scheme, Government of India, 1960, p, 61.

the farmer's income, giving rise to the permanent tendency to "consumption outrunning production". The structure of agricultural credit has never remained coping with the need of the farmers. The shortage of credit has caused retrogressive effect in agricultural productions. The nation, therefore, stood to face the challenge in its proper perspective in order to attain the desired development of the agricultural sector and therefore the process of reform and development of agrarian economy of the country started.

Credit Finance

Any economic activity either in a developing or developed country needs credit. Capital is essential for increasing the ratio of inputs to increase productivity. Provision of adequate and timely credit facilities at low rate of interest is the only way to save the poor and marginal farmers from indebtedness and poverty. The best and only means to satisfy the demand for credit in a developing economy is through cooperative credit. This saves the people from the clutches of money lenders and *Sahukars* who suck the blood of poor farmers.

Agriculture requires proper balance of land, labour, capital, entrepreneurial skill and risk like any other industry. To develop the rural sector which forms the main part of India's economy it is imperative to supplement land and labour already existing in villages in plenty with the capital requirements entrepreneurship and risk. Lack of adequate capital has been acknowledged as one of serious inhibiting factors in the modernization of the traditional agriculture and as key element behind the vicious circle of

poverty. It follows that there is greater stress on agricultural credit in our development programmes.

In recent years, Indian agriculture has undoubtedly witnessed a major technological breakthrough and a progressive commercialization, which has mainly ushered in what has come to be known as the green revolution. With these technological development the importance of capital in agricultural production in India has been rising greatly. Based on the new strategy of the agricultural development and the adoption of capital reliant techniques, demand for the purchase of agricultural inputs, e.g. fertilizers, pesticides, agricultural machinery and equipment etc. has moved upward leading to increases in outlay by farmers on various inputs. The marginal value of the productivity of capital on agriculture having increased, farmers have come to depend on more and more non-owned capital or external finances for they can not fund the expenditure themselves. This has given a new dimension to the problem of agricultural credit.

Financial assistance requirement in the field of agriculture in India have never been as high as they are today. The Indian farmers, but for their physical labour have comparatively a very low investment potential. Therefore, the resources available with the farmers have to be supplemented by credit facilities extended to them through various agencies.

Besides this our government has been extending credit facilities through various financial institutions in serving them. The main considerations being are that the credit does not become a dead weight on the farmers because of its effective use and defective nature of the institutions serving them. Instead, it should

become dynamic and set in motion as a process of development in agriculture, both qualitative and quantitative, resulting in improvement in outputs, net income, saving and investment.

Agricultural Credit and Co-Operatives

In most of the countries of the world attempt has been made to develop institutional credit for agriculture on co-operative lines. The co-operative forms of organizations are considered best for providing credit to the farmers. Attention was drawn to the unique role of co-operative in the provision of agricultural credit, as far back as 1927 by the World Economic Conference held by the League of Nations in Geneva. A special resolution of the conference defined this role as follows:

“The increase of agricultural production intimately bound up with the organization of agricultural credit, which will place at the disposal of agriculturist the necessary capital on favourable terms. The first condition for surmounting these difficulties in the organization of credit institutions in those countries where they do not exist and their development where they are already in existence. The best form of institution appears to be the co-operative credit society operating by means of resource which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities.”¹

In 1937 the statutory report of the Reserve Bank of India stated: “ An agency which satisfies their requisite conditions for agricultural finance is the co-operative society and it has been so

1. Quoted by Naik, K.N., “The Co-operative Movement in Bombay State”, pp. 43-44.

recognized in almost all agricultural countries.” In 1945 the agricultural finance sub-committee was of view that the spread of agricultural credit and of those, rural economy in particular. The Report of the Grow More Food Enquiry Committee (1952), emphasized the need for co-operatives in the following terms:

“.....it would be useful at this stage to stress the great part the co-operative movement should play in improving rural life. The co-operative principle, in its infinitely varying forms, is capable of adaptation for finding a solution to all problems of rural life. In fact, it is only in the co-operative principle that such a solution can be found”. In 1954 the Rural Credit Survey Committee stated: “Today more than ever before, there is every reason for an institutional system if rural credit to be based on a co-operative association in the village.....the reorganization of agricultural credit in India must be based on some form of co-operative association of cultivators within the village itself.....”²

Co-operative organizations have been recognized as one of the best institution for providing rural credit to the farmer because they satisfy all the important criteria of sound agricultural credit. The fundamental postulates of agricultural credit, as pointed out by Mr. F.A. Nischolson, are: (1) Absolute Proximity of lender and borrower; (2) Complete security to the lender as regards the title of the property offered; (3) though safety and facility to the borrower. To these may be added the requirement that credit should be (4) positive, productive and thrift creating, instead of

2. Hajela T.N, “Cooperation: Principles, Problems and Practice”, New Delhi, 1994, p. 51.

negative, unproductive and dangerously facile. To quote Nicholson again,".....it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be sage not merely in eliminating the dangers of usury, but in being controlled, needful and productive.

It is emphatically not the mere outpouring of cheap credit that is required, not the mere grant of cheap and facile credit to classes unprepared for the boon: what is wanted, is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true objects, uses and limits of credit; in other words, the development of essential natural virtues of thrift, foresight and self-help through institutions organized for these ends."³

The co-operative organizations satisfy the basic conditions of proximity as they can have intimate knowledge of the character and abilities of their members. They can supervise the use of credit and see that members employ the money obtained by them in improving the productivity of land. The credit provided by these societies is bound to be cheap as they can have very low administrative cost because much of their work is done voluntarily. The credit provided by co-operative institutions is neither too rigid nor too elastic. The finance as is available from them formally purports to be short-term in most part, whereas in actual practice it tends to be medium-term or even long-term. The credit provided is also safe as it assists and does not hamper the borrower's stability and productivity capacity.

3. Ibid.

Co-operative organization which is actuated by service motive can play a unique role in providing not merely a facile credit but a safe and productive credit. In fact, the very act and effort of obtaining co-operative credit educates and guides the borrower; it teaches the borrower the lessons of mutual and self-help. The co-operatives can instill in members strong feelings of responsibility for prompt payment of interest and repayment of loans and can provide strong incentives to thrift and savings.

Aims and Objects of Cooperative Credit

While the commercial banks cater to the requirements of the highly organized industries and commercial undertakings and organizations, the cooperative banks in India as elsewhere provide banking facilities to the highly disorganized agricultural sector of the country's economy. The task assumed by the cooperative banks is, thus, the most difficult one. Notwithstanding the similarity between the functions, the two differ fundamentally from each other. Commercial credit is motivated by tangible security offered by the borrower and the degree of ease and promptitude with which it can be realized; on the other hand, cooperative credit is guided by the principles of mutual help, and thrift and is accentuated by service rather than profit motive. According to Prof. Horance Belshaw,⁴ the aims of cooperative credit are: (i) to promote thrift so as to increase the supply of funds; (ii) to draw on sources outside the society; (iii) to promote effective use of loans and to reduce the risks in granting loans by careful and continuous supervision; (iv) in consequence to reduce risk to lenders, and to

4. Ibid, p. 286

credit cooperatives by adequate security; (v) by this means and by low cost of management to keep the cost of credit-worthy that they can obtain sufficient funds to finance other cooperative undertakings.

Term of cooperative Credit

It, therefore, follows from the above objectives that the terms of the cooperative credit must be adapted to the needs of the borrowers and should not be dictated by the convenience of the creditor. It implies that the credit should be provided for as sufficiently long period, commensurate with the length of the operation for which the facility is to be provided. This is why cooperative banks provide credit for productive purposes and the period of repayment is synchronized with the period of harvest. Again, cooperative credit lays emphasis on the character and the repaying capacity of the member who borrow. The agriculturists individually can offer the following security: (a) personal property, moveable or immovable; (b) personal credit, i.e. his honesty and character; and (c) the security of his neighbours.

Credit can be classified according to the purpose and the period it is advanced. The period-wise classification consists of short, medium and long-term loans. The term of credit differ according to the kind of credit based the on this classification of credit, the cooperative credit organizations are of two kinds, viz. short-term and medium-term credit institutions and long-term credit institutions.

Short term credit is made available for a period of 12 to 15 months, for meeting the cost of seasonal agricultural operations,

generally in the beginning of the season but utilized as and when required, e.g. to purchase seeds, implements, manure and fodder etc. Also to meet the marketing expenses of course. It is payback usually after the harvest is over.

Medium-term loans are granted for periods exceeding 15 months but not exceeding 5 years for purchase of bullocks, implements, reclamation of land, consolidation of holdings, sinking of ordinary wells and repairs of old ones, construction of *pucca* drains in the fields of purchase of carts, bullock, camel, etc.

Long-term loans are granted for a period from 5 years to 15 years. It is to make the permanent improvements in land, for reclamations and constructing wells, permanent fencing and buildings. No upper limit is fixed but generally it does not extend beyond 25 years. Sir Fredric Nicholson summed up the conditions of a good system of credit as follows:-⁵

“Absolute proximity of lender and borrower, complete security to the lender as regards the title of the property offered, its freedom from prior-encumbrances, the recovery of his capital and interest at the due date in convenient amounts with facilities for enforcing such recoveries in case of arrears in case of arrears, through safety and facility to the borrower in his ability to obtain cheap loans at any time to an amount proportionate to the security he can offer and upon terms which would be equitable in themselves, so convenient as regards repayment, so free from all risks of deliberate entanglement so based on published rules, so devoid of any tendency to discount necessity or urgency or other

⁵. Samiuddin and Rahman, M., “Cooperative Sector in India”. Sultan Chand and Sons, New Delhi, 1983, p. 66.

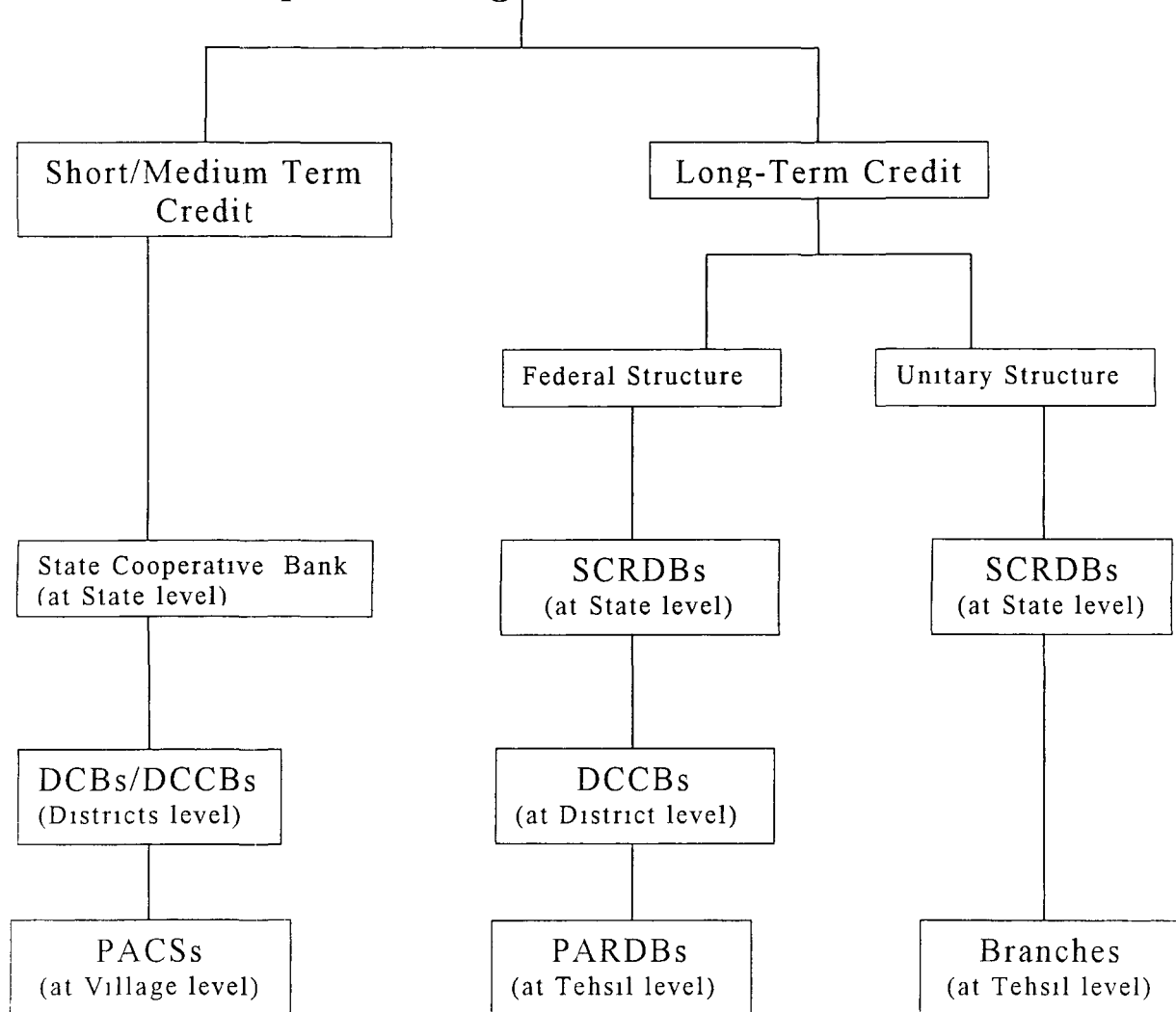
wise that by an equitable insurance that he can calculate on reaping the full fruits of his prudence and find in credit a powerful auxiliary to his productive powers and stability.”

Cooperative Credit Structure

While the short-term and medium-term loans are dispensed by ordinary credit societies, the long-term loans are issued by the Co-operative Land Development Banks. The short-term loans are usually given on personal security on the basis of agricultural production and repaying capacity, which are not otherwise secured whereas the medium and long-term-loans are generally secured by mortgage of land.

The structure of Co-operative Credit in India consists of 3 tiers, namely, the primary credit societies at the base (or village level), the central Co-operative Banks in the middle at the district level, and the Apex or the State Co-operative Banks at the state level. In a tabular form, the credit structure can be explained as under:

Co-operative Agricultural Credit Structure



Note: U P State Co-operative Village Development Bank Ltd has Unitary Structure

The area of operation of society is restricted generally to a village because the liability of the society is unlimited. The individuals are only the members of the society. A member should be a matured person, should possess good character and should be a resident of the village. Moreover, he should not be a member of any other society except a land mortgage bank. Nevertheless, he should not be bankrupt or an applicant to be so adjudicated. The

primary function of these societies is the creation of funds to be lent to the members.

Central Co-operative Banks and Unions

As discussed earlier, the original scheme of co-operation in India did not contemplate the formation of federal or secondary institutions but soon after the Co-operative Act, 1904, the need of such institutions was badly felt and consequently the Central Co-operative Banks at Berar were started. Primary societies organize themselves into Banking Unions. The chief feature of this type of financing bank was that it was composed primarily of societies financed by it though individuals also were admitted as shareholders but member societies had a substantial voice in the management of the bank.

These societies also organize themselves into central co-operative banks, which have societies as well as individuals as their members and as such called mixed type institutions. The area of operation of a central bank usually covers a revenue district. There have been, generally, more than one Bank and Union in a district but we feel it feasible to amalgamate them into one District Bank, in order to make them viable units.

State Co-operative Banks

With the establishment of Central Banks, it was found that certain banks were not able to secure sufficient capital from the money market to fulfill the needs of their constituent societies. Moreover, the central banks also required to be supervised by some head institution. It was to take up all these functions that the

need for an apex central bank arose and the Maclagan Committee (1914) strongly advocated for such an apex institution in each major province. The Maclagan Committee emphasized the need for establishing an apex bank in each major province in the following words:-⁶

“In the absence of an apex controlling institution, Central Banks have to make such arrangements as they can, either by circularizing each other or through the Registrar, to lend out their surplus funds or to borrow to meet their needs. This system is inefficient and uneconomical when the central does the work banks themselves and if the Registrar carries it out entails a substantial addition to his already onerous duties. Moreover, uncontrolled inter-lending among Central Banks involves an interlocking of liabilities, which may well lead to trouble. In some provinces too the Central banks are unable and unaided to secure locally sufficient funds to meet their needs, and these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suitably equipped to serve as a channel between the co-operative movement and presidency or Joint Stock Bank. It is, therefore, in our opinion necessary to provide in each of the major provinces an apex bank which will co-ordinate and control the working of central Banks, forecast and arrange for the provincial requirements as a whole, and be the financial co-operative centre of the province.”

The difference between apex banks and the Central Banks is one of degree and not of kind. It acts as banker's bank to the Central Bank in the districts. It forms the connecting link between

6. Ibid, p. 67.

the money market and the co-operative movement. Moreover, it ensures co-ordination of efforts and uniformity of banking policy as between the different Central Banks.

State Cooperative Banks are the leaders of the cooperative movement in the states. There are 28 SCBs in the country out of which 17 are based on three-tier structure and the remaining are based on only two tier structure. In the states with two-tier structure, the SCBs particularly where there is no long term cooperative credit structure, function as DCCBs and also look after the long term credit needs of the farmers. Thus SCBs assume a lot of significance in the development process. Further, the standing policy of Reserve Bank of India is to have only one apex level institution in each state. Thus the State Cooperative Banks are the apex level institution in the cooperative movement and serve as balancing centres.

State Banks have greater role to play in strengthening the short term credit institutions in the state i.e. DCCB & PACs with grass root level lending, and to take up challenges of New Economic Policies. The present position of DCCB & State Banks is not very encouraging as is evident from the table given.

Table 1.1
State Cooperative Banks (1999-2000)
(Broad Statistics)

No. of Banks	28
No. of Branches	742
Total membership	1,39,676
Membership of Co-operatives	20,360

Total Share Capital	Rs. 3,640 million
Government participation in share capital	10.4%
Total deposits	Rs.118,166 million
Deposits of co-operatives	79.3%
Reserves	Rs.16,712 million
Total borrowings	Rs.55,170 million
Borrowings from NABARD	78.8%
Total working capital	Rs.219,600 million
Total loans advanced	Rs.211,450 million
Percentage of deposits to advances	53.4%

Source: Subramanyam, B. Role of State Cooperative Banks in the Development Process, NCUI, The Cooperator. P. 77.

The Districts Central Cooperative Banks should be encouraged by State Cooperative Bank in mobilizing resources both public & private. At present imbalance exist DCCBs & PACs and also between SCBs & DCCBs. Rajasthan SCB has taken a lead in formulating a scheme for removal of imbalance in short term credit. It is well known that one third of the DCCBs are financially weak and most of the DCCBs are incurring losses. The SCBs should not shy away from the responsibility and work out an alternative to help the DCCBs.

The SCBs should also take utmost care while entering into memorandum of understanding with state government and NABARD on this issue. The rural credit and banking cooperative depends on government equity and concessional funding support from national financial institutions including NABARD. Such support may not continue in future in a liberalized economy and the banks thus have to rely more and more on their own resources and financial strength for their operations. Resources would be a

major problem, which they will have to raise on their own through deposits and other market instruments.

Land Development Banks (LDBs)

The Long Term Co-operative Credit structure comprises of Agriculture and Rural Development Banks (ARDBs) at the state level operating through their branches in some states and through affiliated primary Agricultural Development Banks in some other. Agricultural and Rural Development Banks are specialized term lending institutions in co-operative sector catering mainly to the investment credit needs of agriculture and rural sectors. Entire advances of agriculture and rural development banks are going for capital formation in rural areas. ARDBs finance investment credit projects for a wide range of activities covering minor irrigation, agriculture and allied sectors, rural non-farm sectors consisting of agricultural processing, marketing and transportation small scale and rural industries, horticulture, dairy, fisheries, poultry and rural housing.

The sources of State Co-operative Rural Development banks consist of share capital, reserves and debentures. Most of these banks have received share contribution from State Governments in the initial stage, which in the case of institutions newly set up is often substantially larger than the share capital received from primary banks. In view of the long term character of its advances State Co-operative Rural Banks Development Bank has to raise funds by floating debentures running for periods broadly coinciding with the period of its advances, usually 10 to 15 years. The rate of interest and issue price of these debentures depends

upon market conditions. These debentures rank as Trustee securities and are guaranteed by State Government for their principal and interest with a view to promoting their marketability and making their floatation successful. Loans are granted by land development banks for various purposes-repayment of old debts, improvement of land purchases of costly agricultural equipment, construction of wells, erection of pumping sets, etc. while greater emphasis is being laid on loans for land improvement, in some states a major share of the loans continues to be given for redemption of old debts often to clear the title of land from previous encumbrances. Loans for land improvement are at present given on the basis of the existing value of land and not on anticipated value after development.

From the foregoing discussion, it is inferred that there exist a structure of cooperative credit financial institution in the country. Yet this structure is not comprehensive enough to cope and cater to the credit requirement of agriculture community.

Although "Village Cooperative Credit Societies" existed, but they were unable to undertake heavy financing towards rural credit, their resources being too limited, and also were incapable of performing the large functions, as was the need of the time. As a result our cultivators still continued to depend on credit from private lenders and became a victim of the practice of usury by them. Therefore the Government felt that prior to embarking on any development scheme, this hurdle, has to be dealt with properly, and removed. Without the redemption of the old debt and other hurdles, the farmers could not think of putting to proper direction. The resources made available to them under any

development schemes. Moreover, it was realised that credit is not only for procuring agriculture inputs for increasing the yield, but that finance is primarily needed also for the development of land. If the country has to attain self-sufficiency in food, the cultivable area has to be augmented. Land development, therefore, became of prime concern. This required in established of such an institution which could fairly and properly undertake the problems and needs of cultivator ranging on a wide spectrum from land development to other types of credits for different farming needs. This required the establishment of such an institution, which could fairly, properly undertake the problems and need of cultivators and help over come them.

Such an institution could only be founded or expanded on the spirit of cooperative for the reasons that (a) Only cooperation welcomes the capitalist because of the investment function and the multiplier and at the same time discourages capitalism. This dual function of the cooperative exists because instead of any direct attack or ban or restriction against or upon the capitalistic group through legislation etc., the stress is laid down upon surplus of production again the "Investment function" and the "Multiplier" the basis of the economic development. (b) Only the institutions founded and run on cooperative basis recognise the proper and genuine value of labour in terms of wages against the merit and productivity. The labour is saved from exploitation and this promotes the efficiency to produce. Simultaneously it avoids and averts the domination of proletariat itself. A keen observation of this balancing is too necessary for smooth and steady economic progress. Checks and balances over the "Capitalistic Exploitation"

of labour and the "Trade Unionism" is a significant problems which could be solved only through the spirit of cooperation and the institutions founded with that spirit.

Thus, the institution had to be of banking type, duly subsidised and backed by government to provide heavy finances on long term basis against the security of "Land pledged". Apart from mere loaning, the institution had to function in providing healthy guidance and maintain a check over proper usage of loan given. This could be availed of by encouraging the private sector of the locality and also inducing them towards saving and investment; they could go into the merits of the cases and arranging priorities, being personnel on the spot. There was risk of party politics to pave way, but then the public servants of the institution being no local men, were there to check and avoid this defect.

This led to establishment of the State Cooperative Village Development Banks Ltd. in each State of the country. The state of Uttar Pradesh also has a State Cooperative Village Development Bank. Minor irrigation and Farm Mechanisation is important function of the Bank, beside other function of providing credit to farmers for a number of other purposes related to agriculture. The next chapter throws light on the land Development Banking in India and discusses its origin, requirements, growth and progress and the problems requiring solution.

Chapter - II

*Origin and Growth of Land Development
Banking in India*

CHAPTER – II

ORIGIN AND GROWTH OF LAND DEVELOPMENT BANKING IN INDIA

In the preceding chapter a detailed account was furnished with regard to different dimensions of agricultural cooperative credit in India. A comprehensive light has been thrown on credit finance, agricultural credit viz. a viz. cooperation in India and cooperative agricultural credit structure. The present chapter deals with the origin and growth of Land Development Banking in India.

Land Development Banking in India:—

The first experiment in land mortgage banking in India was made as early as in the year 1863, when a company known as the Land Mortgage Bank of India Ltd., which was also called ‘Credit Foncier, India’ was established and incorporated in London on the model of Credit Foncier of France. Its objective was to advance loans to tea cultivators of India against the mortgage of land. It continued to work for about 20 years, when owing to various adverse circumstances, such as low value of land and inflationary conditions, it gradually lost ground for further existence and finally closed down.¹

1. Khan, M. karamullah “Cooperation and Rural Reconstruction in India”, The Lakshami Printing Works, Hyderabad, 1936. p. 103

The first definite proposal to establish an institution of this kind was made by Sir Syed Ahmad Khan in his memorandum on agricultural banks in the year 1879. The first official step towards financing the Indian farmers for agricultural purposes, however, was the scheme of establishing an agricultural bank put forward by Sir William Wedderburn, the then District Judge of Poona, in the year 1882.²

The Government of India passed the Land Improvement Loan Act in 1883 and the Agriculturist Loans Act in 1884. Under these Acts, the provincial governments were authorised to disburse loans to farmers from State funds and to frame rules regarding them. But the provincial governments have no definite policy for promoting use of improved agricultural practices by the grant of such loans, which were known as 'Takavi' or 'Tagave' loans. The assistance given under these Acts was a small part of the finance required by agriculturists.³

Beside the paucity of funds, this system could not prove to be of much help on account of the ignorance of the agriculturists, dilatory Government procedures and also because loans for redemption of old debts were not permitted under the rules framed by the provinces.⁴

Therefore, the failure of various measures adopted and Acts passed led those interested in abolishing indebtedness to believe

2. Ibid, p. 87.

3. Panandikar, S.G, "Banking in India", Longmans Green and Co.Ltd, London, 1945, p. 129.

4. Bhatnagar, B.G., "The Cooperative Organisation in British India", Ram Narain Lal, Publisher and Book Seller, Allahabad, 1927, p. 31.

that permanent remedy for the chronic disease lay in the cooperative movement. Moreover, the Famine Commission of 1881 and 1901 recommended the necessity of organizing credit associations on the lines of Western countries, where the problem of indebtedness was as acute as was experienced in India.

The indigenous type of cooperative societies for the purpose of thrift and mutual credit had existed in British India for ages which were known as "Kuttuchut" and "Nidhis". But the European model of cooperative credit did not exist in India. In the mean time, towards the end of the nineteenth century the success of cooperative finance schemes, which had originated in Germany and Italy, attracted the minds of several provincial governments in India. The Government of Madras was the first to visualise the possibilities of cooperative movement in India, and in the year 1892 Lord Wenlock deputed Mr. (afterwards Sir) Frederick A. Nicholson on special duty to enquire into the possibility of implementing "a system of Agricultural or other Land Bank," in the Madras Presidency.⁵

After studying the credit system prevalent in Europe, Mr. Nicholson reached the conclusion that the kind of bank initiated by Schulze Delitzsch and Raiffaisen in Germany and by Luzzatti and Wollemborg in Italy were best suited for the Madras presidency. Therefore, he recommended the establishment of such banks in his reports issued in the year 1895 and 1897. His main recommendation was to organise rural credit societies on the lines of Raiffeisen societies of Germany for providing credit on suitable

5. Herrick Myron T. op. cit., p. 429.

terms and conditions and for the promotion of thrift among the rural population.

While Sir Freddrick Nicholson's enquiries were in progress, Mr. H. Dupernex of the Indian Civil Services was deputed on special duty by the United Provinces Government to conduct local enquiries for assessing the suitability of establishing agricultural banks in selected localities. Mr. Duprenex's conclusions were set forth in a famous book entitled "People's Books for Northern India 1900". He also recommended the organization of village credit societies, on the Raiffeisen principles.⁶

It was through F.A. Nicholson and H. Dupernex reports that the idea was first brought to public notice, and soon began to bear fruits. As a result, in several parts of Bengal, the United Provinces and the Punjab some district officers on their own initiative, organized some pioneer societies in 1901, which could only be registered under the ordinary Company Law. It was, however, soon realized that no real progress could take place without special legislation.⁷

The government of India appointed a committee under the Chairmanship of Sir Edward Law, to make proposals for the formation of cooperative societies in the country. The committee included Sir Fredrick A. Nicholson and Mr. M. Dupernex as its members. The committee approved the idea of establishing both rural and urban cooperative societies, formulated a scheme and

6. Siddique, M. Imran, "Land Development Banking", Khama Publishers, New Delhi, p. 26.

7. Mishra, J.P.: op. cit. P. 10.

drafted a bill. This draft bill, after consideration by the local governments was introduced in the Assembly and passed as "The Cooperative Credit Societies Act of 1904".⁸ Within two years of its lasting, about 800 societies had been registered and the number went on increasing from year to year. But a few years later it was realized that the Co-operative Societies Act 1904 required some amendments in certain important directions. Consequently, a new Act was passed in the year 1912 as Cooperative Societies Act of 1912.⁹ It authorised the registration of cooperative associations for purposes other than credit and also legalized the establishment of Unions, Central Banks and other Federations.

The Government of India appointed a Committee in 1914, under the president ship of Sir Edward Maclagan to enquire into the progress of the Cooperative movement. The Committee submitted its report in 1915 and made a number of useful recommendations and suggestions. For example, it suggested that extreme care should be taken in the formation of cooperative societies and stressed the importance of the cooperative principles, both before and after the registration of a society. This had a salutary effect on the cooperative movement in India. Cooperatives became a provincial subject after an introduction of the Reforms Act of 1919, and were placed under the charge of a Minister which gave an impetus to the progress of the movement. Several provincial governments appointed Committees of Enquiry, such as the King Committee in 1922 for Central Province and Berar, the Oakden Committee in 1925, for United Province and the

8. Khan, M. Karmullah: op. cit. p. 89.

9. Bhatnagar, B.G. op. cit, p. 35.

Townsend Committee in 1928 for Madras to review the progress of the movement.

In the year 1926, at the time of the appointment of the Royal Commission on Agriculture, the number of agricultural credit societies was about 65,101, out of the total 71,000 societies of all types in India. And out of nearly 25 crores of the people in rural areas of the country in 1928, only 22.5 lakh people had come within the fold of the cooperative movement, and the total working capital was about Rs.24 crores, while indebtedness in rural areas, stood at nearly Rs.600 crores.¹⁰ The growth of agricultural cooperative credit societies continued but simultaneously the rural indebtedness also increased in the country. According to report of the Provincial Banking Enquiry Committee the total agricultural indebtedness of the country in 1929-30 was nearly Rs.800 crores (United Provinces alone had Rs.124 crores) when the rural population was nearly 27 crores, out of which 25 lakh were members of 75,600 agricultural cooperative credit societies with nearly Rs.34 crores as their working capital.¹¹

The experience gathered from the working of rural cooperative societies revealed that the rural indebtedness had been a formidable obstacle to the improvement of economic conditions of the farmers.

Thus, liquidating the prior debts was deemed necessary so that the ryots could reap the benefit of cooperatives for improvement of their economic conditions in rural areas. This led to the idea of having some suitable agency to grant long-term

10. Mishra, J.P.: op. cit, p. 14.

11. Ibid, pp. 15,16

credit to ryots to liquidate their prior debts and to invest in permanent improvements of lands. One feasible solution for this problem appeared to be the establishment of Cooperative Land Mortgage Banks in the country, which could grant long-term loans on the mortgage of lands.

In the beginning, an attempt was made by the Central and the District Cooperative banks to advance long-term credit to Indian farmers. This method of utilizing short-term credit resources for long-term credit needs involved serious risks. Then another scheme of separating long-term business from that of short-term by establishing two separate department under the same institution was tried by the Vidharba Central Cooperative Bank. But this failed to work satisfactorily and therefore the scheme was discontinued within a very short time.

Mortgage lending was not so easy as it required proper knowledge of land laws and laws relating to transfers and inheritance to enable the financing agency to scrutinize the legal titles for the hypothecation, and this was not possible for these primary credit agencies which were dealing with short-term credit. Moreover, because of their location in the rural areas and meagre financial resources and incomes, it was difficult for them to enjoy the services of legal experts from towns. These institutions had neither any technical experience nor a technically qualified staff, for the valuation of land and other immovable properties offered for mortgage to grant long-term credit. Also, these institutions were not in a position to raise long-term funds by issuing debentures with their own efforts and to keep the important documents, deeds etc., in safe custody.

In fact, the combination of short-term credit and long-term credit was inconsistent because of their different natures and characteristics. This led to the failure even of short-term lending and so ultimately the two had to be separated.

Pre-Independence Development of Land Mortgage Banking in India:

Punjab was the first province in India where efforts were made to tackle this most ticklish problem by establishing a land Mortgage Bank on cooperative lines, at Jhang in the undivided Punjab (now in Pakistan), on June 30, 1920. This was followed by two other banks, in Meerut and Sonapat, established in 1924. Members of these banks were mostly landowners and societies. These banks were not very successful largely due to the depression causing fall in land values and the existence of the "Land Alienation Act" in that province. Hence, these banks had to close down after a short period.¹²

By the year 1926, sufficient knowledge had been gained in the country and the idea of a separate institution for providing long-term finance in the rural area, in the form of cooperative land mortgage banks was recognized. This question was also examined by the Royal Commission on Agriculture which suggested that a distinction between long-term and short-term credit be made in the Acts which regulate the grant of loans by the State. The Commission hoped that in future the cooperative movement would

12. Haugh, Eleanor, M.: "The Cooperative Movement in India", Oxford University Press, Bombay, 1959, p, 294.

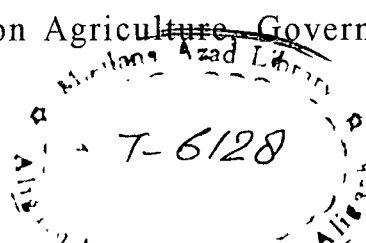
be able to separate the two types of credit finance into land mortgage and village society business.¹³

The need of separate institutions for short-term and long-term credits was also realized by all authorities including the Provincial and Central Banking Committees, and foreign experts associated with the Central Committee. They agreed that cooperative credit institutions could supply only short and medium-term loans to agriculturists with safety and success but not long-term credit. They further agreed that long-term credit could be supplied to the agriculturists with any degree of safety and success only through land mortgage banks which could obtain bulk of their resources by issuing debentures.¹⁴

After some time, it was realised that the floating of a large number of different series of debentures through a number of independent banks not only militated against the success of the debentures issued and the whole scheme, but the issue of debentures at different rates of interest and on different dates with different maturity times caused much confusion and discouragement to the investors. The Royal Commission on Agriculture in India observed that, "the system of issue of debentures by separate mortgage banks would inevitably result in a number of small institutions flooding the market with competing issues; control would become difficult; the security offered would be low; the interest rate would be forced up in consequence of this and the competition from purchasers, and there would always be

13. Report of Royal Commission on Agriculture, Government of India, 1928, p. 460.

14. Panadikar, S.G., op.cit, p. 74.



the danger that the whole system of debentures would be brought into disrepute by the mismanagement of a single institution".¹⁵

In September 1927, the Madras Government appointed a Committee under the Chairmanship of Sir C.A.N. Townsend, I.C.S., to enquire into the cooperative movement. This committee also realized that the multiplicity of primary land mortgage banks with powers of floating debentures would create confusion to the investors. Therefore, it suggested that unless a Central agency such as Central Land Mortgage Bank was formed to provide finance to the primary land mortgage banks by issue of debentures, the success of long-term credit would be very slow.

In pursuance of the recommendation of the Townsend Committee on Cooperation (1927-28), and the Royal Commission on Agriculture in India, the Madras Cooperative Central Land Mortgage Bank was established in 1929 to finance the primary land mortgage banks. Regular and proper land mortgage banking could be said to have begun in the country with the organization of this bank.

Land Mortgage Banking received a great impetus during the period of depression in 1929 and more and more land mortgage banks were established in eight Indian provinces and 16 Indian States.¹⁶ But World War II retarded their growth rate. The overall position was that barring Madras, Mysore and Bombay, the pace of the establishment of cooperative land mortgage banks in India became slow.

15. Report of the Royal Commission, op, cit, p. 467.

16. Panadikar, S.G., op. cit., p. 105.

By the year 1942-43, there were 120 Land Mortgage Banks in Madras, 18 in Bombay, 67 in Mysore, 21 in central Province and Berar, 10 in Punjab, 10 in Bengal, 4 in Assam, 5 in United Provinces and 1 in Orissa. All these Banks were registered under the Cooperative Societies Act but most of them were greatly interested in the redemption of old debts and less interested in the land and agricultural development or in the introduction of better methods of farming. In more than half of the states, not even a single Land Mortgage Bank was established for providing long-term credit to the farmers.

The Reserve Bank of India reviewed the working of the cooperative movement in India (1939-1946) and came out with the following state of affairs in respect of land mortgage banking:

“In spite of its vast agricultural population, India has not had a successful land mortgage banking structure. The land mortgage banking movement has failed in the place of its birth, namely, the Punjab. It has either failed or remained in a moribund condition in several other Provinces like Central provinces and Bihar, Ajmer, Orissa, the United Provinces and Bengal. The only province in India which had made a mark in land mortgage banking is Madras.”¹⁷

Thus, the growth of land mortgage banks in pre-independence period remained unplanned and neglected. There was no planned allocation of credit resources to meet the long-term agricultural credit requirements, almost in every province of India,

17. Review of the Cooperative Movement in India (1939-46), Reserve Bank of India, P, 11.

especially the United Provinces of Agra and Awadh (Now Uttar Pradesh).

Post-Independence Development of Land Mortgage Banking in India:

The country, after the attainment of Independence in 1947, took to planning for all-round development and set as its goal the elimination of poverty and raising the standard of living of the people. Since agriculture is the most important sector of Indian economy, much attention was paid to its development. A high priority to agricultural development was given in the First Five Year Plan, to achieve a growth of at least 5 per cent. Accordingly, policies and strategies were chalked out to achieve this pre-set goal and the provision of adequate productive capital and investment finance formed an important part of the strategies for agricultural development in addition to a number of other schemes.

In August 1951, the Reserve Bank of India appointed a Committee known as "All India Rural Credit Survey Committee." The Committee conducted the first comprehensive investigation of rural credit in India and also examined the working of cooperative movement. With the sample of 1,27,343 families from the selected 600 villages in 75 districts of the country, this Committee came out with general report in December 1954.¹⁸ It recommended the establishment of a Central Land Mortgage Bank in each of the States in India, and emphasized the need for these banks to

18. All India Rural Credit Survey, 1951: Reserve Bank of India, The General Report, Vol. II, p. 22.

reorient their policies from refinancing of old debts to provision of finance for improvement of land and other productive purposes. It also suggested the simplification of the loan procedure and disbursement by the State Governments of all long-term Taccavi funds through Land Development Banks. It further recommended that the Reserve Bank of India and the Life Insurance Corporation should help these banks by subscribing to their debentures on an increasing scale.

As a result of these recommendations, land mortgage banks started playing an important role in the planned agricultural development. Over the years, these gradually expanded in number as well as in their financial operations. By the end of the First Five Year Plan (1955-56), nine States had their own central Land Mortgage Banks and advance loans worth Rs.8.3 crores to 90,000 members of these banks as compared to only Rs. 1.36 crores to nine thousand members in 1951-52, thus reflecting an increase in the volume of loans and the number of beneficiaries.¹⁹

In all, nineteen Central Land Mortgage Banks (now known as State Cooperative Agriculture and Rural Development Banks) and 6 State Cooperative Banks, each having a separate Land Development Banking section/Department, were established in the country, at the rate of one for each state and centrally administered territory, except Nagaland, Meghalaya, Manipur and Goa, with a network of 2,211 primary land development banks and branches of State Land Development Banks, having more than 93.07 lakhs individual members all over the country, and the loans

19. Samiuddin and Rahman, M., Sultan Chand & Co., New Delhi, 1983, p. 160.

to the tune of Rs.3,003.99 crores had been disbursed through these institutions by the end of 1981.²⁰

Present Status of Land/ Agriculture and Rural Development Banks:

There is no uniformity in the organisational set-up in the Long Term co-operative credit structure. As on date, long term credit structure consists of 19 apex level State Land Development Banks /State Agriculture and Rural Development Banks (SLDBs/SARDBs) in the States/Union Territories operating through 2990 units. Of the 19 SLDBs/ARDBs, seven have unitary structure with branches, ten have federal structure while in the remaining two States viz., Himachal Pradesh and West Bengal, the structure is a combination of federal and unitary types. In seven states and six Union Territories, separate LT structure does not exist. The investment credit needs of farmers are met by the concerned State Cooperative Banks (SCBs) through their branches and Primary Agriculture Credit Societies (PACSSs). In the federal structure too, the unit size and the area covered by it differs from state to state. Thus, in Madhya Pradesh and Rajasthan, the Primary Land Development Banks (PLDBs) are located at the district level with their branches at the lower levels. In other States with federal structure, the PLDBs/PARDBs are mostly at the sub-division/Taluka/Tehsil level with branches at the lower levels. In Andhra Pradesh, an integrated structure has been created by merger of Short Term and Long Term structures, which operates

20. Ibid.

through the District Central Cooperative Banks (DCCBs) and PACSs.

The total current membership of ARDBs is about 150 lakhs, of which borrowing membership is 70 per cent constituting about 15 per cent of the country's rural families. The low coverage apparently is due to loan business allowed to only limited purposes, like redemption of old debts till the end of 50s and emphasis on security oriented lending.

The aggregate amount of advances by ARDBs since inception till 1999-2000 was Rs.30,000 crore, 90 per cent of which going to farm sector 7 per cent to non farm sector and 3 per cent to rural housing. The banks were able to achieve the lending targets except during 4th, 5th, 6th and 7th plans, when the target shortfalls ranged between 7.67 per cent in 6th plan and 7.92 per cent in 7th Plan.²¹

Though minor irrigation continues to be the single largest purpose financed by the ARDBs, the proportion of such loan to the total advances declined from 50 per cent in 1978-79 to 23 per cent in 1999-2000 due to efforts at diversification especially to farm mechanisation, animal husbandry and non farm sector. The share of farm mechanisation increased from 8 per cent in 1978-79 to 20 per cent in 1999-2000. The advance for dairy, poultry, fishery etc. which constituted just 1.2 per cent of the advances in 1978-79 reached 15 per cent of the total advances during 1999-2000. Banks, in recent years, started financing activities like wasteland development, rural godowns, cold storage, market yards etc. The

21. Background Papers, 14th Indian Cooperative Congress, National Cooperative Union of India, New Delhi, P. 78.

share of non farm advances was 12 per cent of the total advances in 1999-2000 as against 2.3 per cent in 1998-99. Non farm sector financing started in 1977, today has become an important line of lending in most States with cumulative disbursements crossing Rs. 1500 crore and annual disbursements over Rs. 300 crore, accounting for about 65 per cent of the total refinance support for non farm sector by NABARD to all banks. Rural housing is another area into which ARDBs have diversified their operations in recent years. At present half a dozen ARDBs are implementing this programme with refinance support of National Housing Bank. The cumulative advances under rural housing have exceeded Rs. 825 crore by 1999-2000. The ARDBs could also maintain high quality of lending along with quantitative growth. Expansion and diversification of loans portfolio into all sectors and activities in the rural economy was an important achievement of ARDBs contributing substantially to the incomes and quality of life of rural people.²²

The average annual loan recoveries of ARDBs during the decade ending 2000 worked out to 55 per cent with wide variation from State to State. Deficiencies in loan appraisal system, inadequate follow-up and supervision and external factors like natural calamities, Government political interference in the recovery efforts are some of the reasons for poor recoveries in certain States.

22. Revindran, K.K, Background Papers, 14th I.C.C.

Performance Appraisal and Revamping:

In spite of their impressive performance in the credit delivery, ARDBs in some States have development weaknesses mainly due to externally imposed pressures and restrictions. These weaknesses have reflections in mounting overdues and high Non Performing Assets (NPA) levels, deterioration in working results and accumulated losses. The aggregate ground level recovery has been stagnating at around 60 per cent during the last five years with substantial increase in the quantum of ground level overdues. The ground level overdues in the structure has increased by 76 per cent from Rs. 1350.88 crore in 1996-97 to Rs. 2373.09 crore in 1999-2000. Eight out of 19 SCARDBs and 383 out of 745 PACARDBs have incurred losses in 1997-98. As on 31.3.1998, the accumulated losses of SCARDBs and PCARDBs were Rs. 391.77 crore and Rs. 534.64 crore respectively. Huge provisioning requirements on account of application of prudential norms is the main reason for accumulated losses in most of the banks.²³

A major portion of the losses incurred by Agriculture and Rural Development Banks are the results of certain Government policies. Following are some of the policies of Government and RBI that contributed to the financial weaknesses of ARDBs in many States:

(i) Regulated Interest Rates:

The ARDBs until 1995 were carrying out their lending operations under administered rate of interest both in respect of the borrowings and lending. Against the interest margin of 6-7 per

23. Ibid, P. 78.

cent recommended by ACRC and generally accepted as the minimum required spread to meet the transaction cost to leave sufficient surplus to provide for the risk costs, the actual average margin allowed was only 4 per cent. The actual spread available was grossly inadequate taking into account the high transaction cost in credit dispensation among highly scattered beneficiaries in rural areas, high transaction costs including guarantee fee charged by governments on borrowings from NABARD and other agencies.

(ii) Losses From Relief Scheme of 1990:

The Agriculture Rural Debt Relief (ARDR) Scheme of 1990 envisaged writing off of overdues upto Rs. 10,000 in individual loan accounts in respect of rural beneficiaries. The banks were asked to prepare the list of eligible cases which were jointly verified and certified by the representative of NABARD and Dept. of Cooperation in each State within a time frame. The amount certified by NABARD/ Dept. of Cooperation. In the State was written off from the loan accounts of individual borrowers concerned with effect from 31.3.1991 on the understanding that banks would be reimbursed the entire amount written off by the Government through NABARD. However, there was lot of delay in reimbursing the amount to the banks. The reimbursement claims of banks remained unsettled until 1995 in some cases. The banks incurred huge losses by way of interest losses during this period. Moreover, when the amount was reimbursed, Government effected 5 per cent cut on the actual amount written off by banks. The

losses incurred by ARDBs due to implementation of ARDR Scheme 1990 aggregates to Rs 202 crore ²⁴

The adverse impact of ARDR Scheme of probably the recovery climate of banks was probably the biggest blow to their financial health. The average recovery of the structure, which used to be about 65 per cent before ARDR, suddenly declined to about 45 per cent. Even after a decade of concerted efforts, the average recoveries have not reached the pre ARDR level. A considerable portion of the chronic willful defaults of ARDBs is the direct result of the wrong signals given by the Government, through ARDR scheme.

(iii) Bad Debts and Losses under Direct Credit Programme:

ARDBs were set up in most States as per the recommendations of Rural Credit Survey Committee 1954. These banks have been considered as extended arms of Government and have been used to implement credit directed programmes in the agriculture and rural sectors from the very beginning. Most part of the irrecoverable overdues of ARDBs fall under various types of Central and State Governments sponsored schemes. These programmes have been formulated by the Government agencies for target groups identified by them without considering the bankability of the projects or credit worthiness of the borrowers. The irrecoverable overdues under credit linked programmes of Governments account form major portion of the NPAs in ARDBs. The losses incurred by 15 banks for which data are available, bad

24 Ibid, P 79

debts under the directed credit programme have been worked out to Rs.220 crore.

RBI has deregulated interest rates on lending in 1995. However, even with revision of interest rates on lending after deregulation, the banks could not make any provision for meeting risk costs. In spite of adequate security in the form of mortgage of landed property, the safety of agriculture loans depends on weather conditions and yield of crops from year to year. Recovery is affected due to crop failures which takes place frequently. There is no provision to provide adequate relief to borrowers of investment credit in the event of natural calamities. In fact agricultural lending proved to be highly risky for commercial banks and RRBs who are the late entrants in the field. The commercial banks, most of whom started agricultural lending only after nationalisation in 1969, have incurred substantial losses out of agricultural lending during the short period thereafter. The government, however, has compensated most part of the losses incurred by the public sector banks and RRBs by recapitalisation. Recapitalisation should be the first stage of revamping the cooperative credit structure including the ARDBs. There has been a lot of debate on the subject, especially on the question of who should bear the burden. It has been argued that recapitalisation should be done by the owners of the banks.

The Task Force appointed by Government of India under the Chairmanship of Shri Jagdish Capoor, Dy. Governor of RBI in its report states that it is convinced of the urgent need to rehabilitate cooperative credit structure and recommended a financial package for the same. The Task Force has recommended issuing

Government bonds favouring the banks to the extent of 90 per cent of the support required by State and Central Governments on equal basis and mobilising the balance 10 per cent by way of additional share capital from members. The banks will receive yearly interest on the bonds for the period during which they are held. These bonds will reflect in the balance sheet of receiving banks and will wipe off their accumulated losses to that extent. Yearly returns on the bonds will help them to improve their financial position in subsequent years. It is envisaged that these banks will achieve turn around and reach a position of standing on their own, by the time the bonds are taken back by the Government. The bond scheme is preferred by the Task Force to avoid huge financial commitments on the part of State and Central Governments which would be difficult to meet, considering the precarious financial position of State Government and the compulsions of GOI to avoid further increase of fiscal deficits. The Task Force considers the bond scheme as the only practical measure to help the cooperative credit structure in the above circumstance.

The underlying assumption of the bond scheme is that the end use of external support would be investments in income yielding avenues. Instead of getting an interest free loan which would be ultimately invested in income yielding securities and repaying that loan out of surplus generated after attaining long term viability. The Task Force has recommended straightaway issuing income yielding securities in the form of special Government bonds and taking these bonds back once the financial position is improved. The scheme is as good as a soft loan for

most of the SCARDBs and PCARDBs whose accumulated losses have not exceeded their own funds and resulted in outstanding dues to higher tiers, refinancing agencies or other financial institutions. Rehabilitation scheme recommended by the Task Force therefore needs modification in the case of a few SCARDBs like Maharashtra, Assam, Bihar, Orissa etc and many PARDBs in different States whose accumulated losses have resulted in outstanding dues to other institutions. The prime purpose of external support for these banks would be to clear such outstanding dues rather than investing in income yielding securities. Rehabilitation assistance for these banks should therefore necessarily come as cash inflows with a long repayment period till they attain sustainable viability.

Legislative and Legal Reforms:

Cooperatives are regulated by State Acts. The restrictive provisions in the Act as well as stringent administrative controls exercised by the institution of RCS deprive cooperative of autonomy and operational freedom. Power to supersede elected boards, compulsory amendment to byelaws are some of the overriding statutory powers given to RCS which are used very frequently undermining the autonomy and democratic character of cooperative institutions. Democratic management is absent in a substantial number of institutions at the State and primary levels. As on March 1998, eight out of 19 SCARDBs and 104 out of 745 PCARDBs do not have elected boards ²⁵

25 Ibid p 81

The legal and legislative reforms should aim at removing unnecessary restrictions and to give autonomy and operational freedom to the banks.

It is suggested that the relations with Government and cooperative should be redefined. ARDBs and Government should collaborate as equal partners to implement programmes of the mutual concern and interest. The Cooperative Societies Acts in various State should be amended to remove restrictions on autonomy and operational freedom of ARDBs. The role of Registrars should be restricted only to registration, supervisory role to ensure cooperative identity, democratic management and settlement of disputes. Government of India should take initiative to set up a national forum of State Governments to speed up the process of legislative reforms in cooperatives by evolving a common approach and a time bound action plan for legislations.

I am of the opinion that the Multi State Cooperative Societies Act should be amended expeditiously to act as a model and example for State Government. The ideal pattern with regard to cooperative legislation is to have a comprehensive National Act for all States. Cooperation should be brought in the concurrent list in order to facilitate this. This may be set as a long-term objective regarding legislative reforms. The legislative reforms already introduced in some of the State have not considered the issue of autonomy and independence of main stream cooperatives and relate only to new cooperative being registered under the new Acts. The above deficiencies in the legislative reforms should be rectified. The democratic management in cooperatives should be strengthened by making appropriate provision for holding

periodical elections to the Board compulsory as per law without any provision for extending the tenure of Board beyond the stipulated period under any circumstance.

Structural Pattern and Network Adequacy:

The 20 apex institutions in the structure operate through 2985 base level units with an average coverage of 195 village. There is wide variation in actual coverage ranging from 10-15 village in Kerala and 80 villages in Haryana compared to 361 in Bihar, 260 in West Bengal and 392 in Uttar Pradesh. In the federal structure PADB's are constituted mainly talukwise but are also districtwise and blockwise PADB's in some States.

Both unitary and federal structures have its own distinct advantages. There are examples of efficient and successful banks under these structures.

The total membership of ARDB's is 23 million out of which borrowing membership constitutes 15 million which works out to be 10 per cent of rural household. Though ARDB's could achieve an annual growth rate in their advances of about 15 per cent in the last 5 years there has not been commensurate growth in borrowing membership.²⁶

There is need and scope of network expansion to improve service and outreach. Banks which satisfy viability norms should be given freedom for network expansion according to requirement. Similarly, banks should be encouraged to experiment alternative

26. Information provided by the officials of N.C.U.I.

models for rural credit delivery such as linkage banking especially in areas where fullfledged branches/primaries are not feasible.

The Task force under the Chairmanship of Shri Jagdish Capoor has favoured unitary structure as the ideal pattern for ARDBs in the context of universal banking. Under unitary structure issuing banking licence to the SCARDBs will facilitate coverage of the entire State for extending universal banking by ARDBs, whereas in the federal structure, universal banking will involve separate licences to each of the PCARDBs which may not be practical. Conversion of federal SCADBs in to unitary pattern is therefore one of the pre-conditions for conversion of the ARDBs into fullfledged banks as recommended by the Task Force.²⁷

Business Expansion and Diversification:

ARDBs provide investment credit for agriculture and rural development. Minor irrigation, farm mechanisation, plantation and horticulture development, diversified purpose like dairy, poultry, fisheries etc. under farm sector, village, cottage and small scale industries and rural transportation etc. under rural non farm sector are the main areas of lending. About half a dozen banks are also financing rural housing consisting of construction of new houses and renovation/extension of old houses with refinance support from National Housing Bank.

The cumulative disbursements of ARDBs since inception till 1999-2000 are Rs. 27,536 crore. Out of this, about Rs. 22,675 crore were disbursed during the last 15 years. The broad

27. Ravindran K.K, Revitalisation of Long-Term Credit Structure, background papers, 14th I.C.C., N.C.U.I, p. 82.

purposewise classification with relative share of each purpose in the total advances during the last 15 years is furnished in Table 2.1.

Table 2.1
Purpose-wise Classification of Total Advances (1999-2000)

S. No.	Purpose	Amount (Rs.in Crs.)	Relative share in per cent of the total
1.	Minor irrigation	7142.02	31.50
2.	Farm mechanisation	5668.47	25.00
3.	Plantation & Horticulture	973.56	4.29
4.	Diversified purpose	3948.61	17.41
5.	Land development	447.90	1.98
6.	Non-Farm Sector	2045.09	9.02
7.	Rural Housing	567.62	2.50
8.	Other purposes	1881.81	8.30
		22675.08	100.00

Source: Background Papers 14th I.C.C., N.C.U.I, New Delhi

Farm sector advances which accounted for 90 per cent of the total advances during the last 15 years has come down to about 75 per cent in 1999-2000 with corresponding increase in the share of other purposes including rural housing. Another notable feature is high proportion of loans to small and marginal farmers, which is maintained at a level of about 65 per cent. More purposeful diversification and change of direction as well as dispensation in

the flow of credit on the following lines is required to make it an effective catalyst of bringing rural development.

Thrust should be given on diversifying the loan portfolio of ARDBs into agri business, commercial agriculture, agro processing and services sector. NABARD should provide resources for meeting incremental working capital needs of such till ARDBs become resource based. I am of the opinion that the Banks should be allowed and given support to provide a package of credit services to supplement investment credit for reasons of:

- Convenience of single window,
- Better asset utilisation,
- Enhancing credit effectiveness by minimising chances of misutilisation,
- Higher business levels to attain viability, and
- For level playing field to compete with other players who provide all kinds of credit.

I feel, ARDBs should be extended a line of credit for meeting the SAO requirement of their long-term borrowers. Studies have revealed that inadequacy / non availability of working capital – ST loans for the long term borrowers of ARDBs from the institutional sources result in under – utilisation of assets and problems in recovery.

The Task Force also holds that integration of ST and LT structure as recommended by the Hazare Committee would be ideal but rightly recognises the difficulties in integration and states that if integration is not possible, both the structure should provide both LT and ST loans. It is further stated that integration

should be done early in some of the States where one of the structures is weak and the concerned State Governments has taken steps to integrate the two structures.

Hazare Committee recommended integration of the system almost 25 years back. No State except Andhra Pradesh has attempted integration so far. Integration in Andhra Pradesh which took place after 20 years since Hazare Committee report came, was not for any reason suggested by the Committee. Andhra Pradesh experience has also given hard lessons about the practical problems in integration two exiting institutions which could not be visualised by Hazare Committee. Rather than integrating the ST and LT structures, what is required is integrating ST and LT agriculture loan facilitating both the structures to provide both kinds of loans.

Augmentation of Resources:

ARDBs are non resource based institutions. They depend heavily on borrowed funds. Total borrowings outstanding almost same as total loan outstandings of Rs. 11500 crs. NABARD contributes 85 per cent of total borrowings, Central and State Government together 7 per cent and the balance by other institutional agencies like LIC, Commercial Bank, and also NHB.

The total owned funds of SCARDBs were about Rs. 1650 crs in March 1998 and that of PCARDBs about Rs. 1000crs.

The proportion of owned funds to borrowing works about 16 per cent in the case of SLDBs and about 9 per cent in the case of PCARDBs.²⁸

Equity constitutes about two third of the owned funds and surpluses and reserves account for the balance.

About 15 per cent of the equity contributed by the Government. The balance comes mainly by way of share linking with credit facility extended to members which generally at the rate of 5 per cent. Bulk of the owned funds is locked up in overdues in majority of the Banks. Banks started deposit mobilisation only recently. Deposits constitute only about 3 per cent of the total working capital.²⁹

ARDBs are allowed to mobilise term deposits of one year and above from individuals and institutions since 1977. Most of the banks have launched deposit mobilisation programme as per the revised guideline issued by NABARD based on the recommendations of the Study Group headed by Dr. M.C. Bhandari. However, the deposit mobilisation programme of ARDBs is not effective in building up its resources. Only high cost term deposits are allowed to be mobilised depriving competitive edge in deploying funds and generating reasonable margin. In the absence of other banking facilities the scheme does not evoke much response from potential depositors. Similarly, the condition that only State ARDBs can accept deposits prevents

28. Background Papers, 14th Indian Cooperative Congress, N.C.U.I, p.83.

29. Ibid.

penetration of the scheme in the rural areas in the federal structure.

Deposits are not likely to be a reliable source of resources until ARDBs are allowed to mobilise all types of deposits like other banks and provide facilities to depositors as available to their counterparts in commercial banks.

For augmentation of resources, the following steps are called for:

The system of linking share capital with the credit facility generally at the rate of 5 per cent which contributes major portion of the equity should be continued. Major portion of the share capital collected at the primary level should be passed on to the apex in order to improve leverage. Members may be encouraged and motivated to make additional equity over and above the minimum requirement. This, however will be possible only if the banks maintain a consistent record of declaring dividends without ceiling. The present restrictions in declaring dividend including ceiling therefore, should be removed.

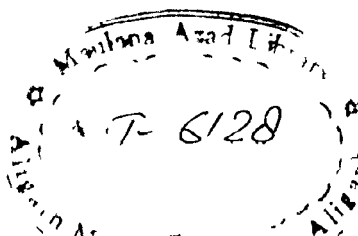
Government accounts for about 15 per cent of the total equity of ARDBs. Equity contributions by Government is the main source of interference in the working of the banks. The system of Government participation in the equity of cooperatives should be discontinued in the long term interest of these institutions. Instead of participating in the equity, Government may contribute to the resources of cooperative as investment or as its share in the resource needs to undertake programmes. The Government want the banks to implement as equity partners on mutually agreed

terms. ARDBs may be allowed to issue tax free bonds/debentures as recommended by Bhandari Committee.

Depositors of ARDBs should be given tax incentives as per section 88 of Income Tax Act as recommended by ACRC. Such tax incentives are justified on the grounds that entire proceeds of these bonds/debentures and deposits are used for rural capital formation in high priority sectors. Bringing ARDBs under Banking Regulation Act:

Most of the problems in resource mobilisation and business expansion faced by the ARDBs at present can be solved by bringing ARDBs under banking Regulation Act. ARDBs may be allowed to function as full fledged banks for the following reasons:

- (1) To mop up rural saving effectively the present deposit mobilisation scheme is not effective because of high cost of term deposits and inability to provide other banking facilities to the depositors.
- (2) To become resource based institutions and to reduce dependence on refinance agencies.
- (3) To meet the entire credit needs of the borrowers.
- (4) To supplement investment credit with production credit to enhance effectiveness.
- (5) ARDBs are the only rural credit institutions not able to provide personal banking facilities and a package of credit services to their borrowers putting them in a highly disadvantageous position in a competitive market environment.



- (6) Conversion of ARDBs as full fledged banks will facilitate healthy competition within the cooperative sector with short structure who at present is providing all kinds of banking and credit services to their members including investment credit. This will facilitate better customer service and wider coverage and outreach.
- (7) Maintaining the separate identity of ARDBs with full fledged banking functions will help them to retain their comparative advantage and expertise in investment credit.
- (8) Bringing ARDBs under Banking Regulation Act also pave way for making RBI/NABARD the statutory regulatory authority for ARDBs.
- (9) The fullfledged banking functions will also help ARDBs to become resource based institutions by effectively tapping the vast potential for mopping up rural savings as deposits with the advantage of insurance of DICGC.

The Task Force recommends that financially strong SCARDBs in the unitary structure may opt for conversion into fullfledged banks which will work as statewide urban cooperative banks

It is also suggested that financially strong SCARDBs in the federal structure should first convert itself into unitary system to take advantage of conversion into universal banks. The weak SCARDBs and PCARDBs have to keep striving to improve their financial strength and qualify for being converted banks. The Task Force has recommended RBI to evolve separate criteria for issuing banking licences to SCARDBs in the unitary structure and suggests that not withstanding their financial strength, these

banks would require a lot of preparations in the areas of manpower development and training and infrastructure adjustments before embarking on the new frame of structure and activities.

Recovery Strategy and Non Performing Assets (NPA) Management:

The recovery position of the loan and advances granted by the cooperative institutions has not been satisfactory. In most of the Indian States the pay backs have been less than 50 per cent. This state of affairs has resulted in giving rise to NPAs, which have mounted over the course of years. The following table present the state of recovery in all the states of the union of India as well as the all India average.

Table 2.2

**Recovery at Ultimate Borrowers' Level for Three Year Period
i.e. from 1997-98 to 1999-2000**

Sl. No.	Name of the Bank	Recovery (per cent)		
		1997-98	1998-99	1999-2000
1.	Andhra Pradesh	63.26	57.53	55.06
2.	Assam	16.95	14.82	37.85
3.	Bihar	38.28	41.38	30.74
4.	Gujarat	65.88	64.30	55.09
5.	Haryana	64.85	68.50	58.68
6.	Himachal Pradesh	66.95	68.78	63.05
7.	Jammu & Kashmir	33.32	36.83	44.47
8.	Karnataka	33.76	40.18	37.22
9.	Kerala	72.46	74.14	72.48
10.	Madhya Pradesh	48.20	60.32	64.16
11.	Maharashtra	43.88	47.55	45.01
12.	Manipur	NA	NA	NA

13.	Orissa	24.97	22.97	14.71
14.	Pondicherry	35.61	40.86	34.70
15.	Punjab	82.75	82.98	80.03
16.	Rajasthan	66.65	65.13	53.31
17.	Tamil Nadu	43.49	46.98	36.72
18.	Tripura	44.18	55.85	53.99
19.	Uttar Pradesh	81.13	82.09	84.32
20.	West Bengal	61.31	59.12	57.52
All India Average		-	58.10	59.98
				56.79

Source: Background Papers, 40th I.C.C., NCUI, New Delhi. P. 85.

Note: Recovery position of Manipur is not available.

The above table reveals that the aggregate loan recoveries of ARDBs at national level hovers around less than 60 per cent during 1997-1998 to 1999-2000.

There is also wide variation in recovery performance from State to State. While recovery performance is generally poor in the entire north east and eastern regions, there are also certain States with poor recovery in north. Certain southern states, however, show that the recovery is generally good, but not more than three fifth of the total volume of the credit

The following table shows the grouping of banks (state wise) based on range of recovery.

Table 2.3
Classification of Banks According to Range
of Recovery (1999-2000)

Sl.	Range	No. of banks	Name of the States
No.	of Recovery		
1.	Above 80 per cent	2	Punjab, Uttar Pradesh

2	70-80 per cent	1	Kerala
3	60-70 per cent	5	Andhara Pradesh Gujarat, Haryana, Himachal Pradesh Rajasthan
4	50-60 per cent	1	West Bengal
5	40-50 per cent	4	Madhay Pradesh, Maharastra, Tamil Nadu, Tripura
6	30-40 per cent	2	Bihar, Pondichaerry
7	Below 30 per cent	4	Assam, Jammu & Kashmir, Karnataka, Orissa

Source: Background Papers, 14th I C C N C U I New Delhi, p 86

No exact figures are available on the extent of NPAs. It is estimated that the loan outstanding of loan accounts with overdues of 13 months or more aggregated to Rs 2500 crores constituting 18.5 per cent of the total loan outstandings of Rs 13,487 crores as on 31.3.2000. The provisioning requirement at the base level is estimated to be around Rs 400 crores against the total loans outstandings in the defaulted accounts with varying interest rates starting from 10 per cent.

The researcher is of the view that the entire powers relating to loan recoveries should be assigned to officers of the bank. The powers to initiate legal measures for recovery is now assigned only to officials of co-operative department in most States. Government should desist from across the board measures like

loan waiver. Dues to ARDBs may be brought under revenue recovery proceedings addition to other legal remedies available for recovery. NABARD should play a more proactive and supportive role in facilitating higher recoveries. NABARD's scheme for providing relief to the borrowers as well as banks in the event of natural calamities should be appropriately modified to provide real relief rather than postponing the current dues with compounded interest. Banks should insist insurance of assets created out of loans. The Rashtriya Krishi Bima Yojana announced by Government recently covers only selected seasonal crops. The scheme may be gradually extended to perennial crops and all other investment and assets in agriculture.

Wherever suitable insurance products are not available at reasonable cost compensation funds should be set up with contribution by banks, borrowers and NABARD.

Union Finance Minister during the Budget speech on 29th February 1988 had announced setting up of a fund to provide relief to the farmers affected by drought and other natural calamities against loss of assets and that the corpus of the Fund would be provided by the Central and State Governments on an agreed basis. It was further announced that the criteria for releasing money from the Fund would be worked out by Reserve Bank of India. Unfortunately the Fund has not been set up so far. Steps may be made to set up the Fund without further delay with provision to provide the following relief to affected farmers who had availed loans from financial institutions:-

- a) Relief towards interest portion of postponed instalment.
- b) Compensating the assets damaged/destroyed in floods etc. by scaling down the loan outstanding or writing off the same.
- c) When the dues are postponed for the three successive years write off the postponed dues.

NABARD should permit blocking of overdues in genuine case without undertaking from the Government, based on the performance commitments by banks. A special package for reviving the structure in the backward regions of north east and east consisting of restructuring of existing institutions alongwith blocking of overdues and reviving refinance support. There are instances of weak base level units even in States where the structure as a whole is strong. NABARD and SCARDBs concerned should evolve a strategy to strengthen weak base level units.

Regulatory Function – Audit Inspection:

While cooperative is a State subject the business of cooperative banks and financial institutions is a central subject. Cooperation being a State subject the State Government has the mandate to regulate and ensure the cooperative aspects of the working of ARDBs like democratic management, periodical elections to the Board, holding of General Body Meetings as frequently as prescribed by law, settlement of disputes etc. However, banking and credit being central subjects cannot be regulated by any State authority. NABARD being the statutory

regulatory authority in rural credit should be made the single regulatory authority as regards the business of ARDBs.

Bringing ARDBs under Banking Regulation Act will remove the legal hurdles in entrusting the regulatory function to NABARD/RBI/NABARD.

Areas of self-regulation should be identified, formalised and left to the banks for regulation.

The cooperative audit generally failed to set appropriate norms and standard to help cooperative institutions to operate efficiently in a competitive market environment. The system of cooperative audit also proved to be very expensive compared to industrial standards. Cooperative audit also has resulted in huge arrears defeating the very purpose of audit. The system of cooperative audit should, therefore, be discontinued and audit should be entrusted to Chartered Accountants selected from a panel approved by NABARD.

Streamlining System and Procedures:

In a market economy like the one emerging in India customer is the prime focus. Success of credit and banking institutions which are providing by and large personalised services in a competitive environment depends on the quality of customer service. The new philosophy of banking places the customer in the centre of all their operations. Banks are devising new products not only to suit various segments of customers but also with provision to accommodate specific needs of individual clients. Marketing strategies of banks are also changing to methods of direct appeal to individual preferences.

Customer service is a neglected area in ARDBs. ARDBs could afford some complacency in this regard in a somewhat closed market environment as was prevailing until 90s. But under competitive market conditions in lending and resource mobilisation to which ARDBs are exposed today, better attention to customer service has become a necessity. Banks have needs of customer as an individual.

Adequacy and timeline of credit and simplicity of procedure are the three tenets of sound credit delivery system. While adequacy and timeliness loans are closely related to the loan policies and appraisal system of the banks drawn out practices and sometimes legal and statutory provisions.

Borrowers look forward to higher standards of customer service which is noted for its absence in ARDBs. Long waiting for getting a loan is the most important impediment to customer satisfaction in ARDBs. The time lag between applying a loan and getting it is generally more in ARDBs as compared to other banks. Average time taken for giving a loan needs to be reduced considerably.

The person who comes to the bank for any purpose should be attended to without long waiting time. "Come tomorrow" syndrome among the bank staff should be effectively tackled by fixing responsibility and accountability and also making the customers aware of their right to service and also a machinery to monitor customer grievances and redressal.

Long term loan by its very nature involves thorough processing and legal scrutiny requiring considerable term lag between receipt of loan proposal and actual disbursement of loan.

This apart, the traditional system and cumbersome procedure has rendered the credit delivery system much wasteful and time consuming in many ARDBs. Streamlining of credit delivery system of ARDBs has also become an urgent need in the context of direct positioning of these banks against other rural credit institutions like commercial banks and RRBs in the emerging competitive involvement. The credit delivery system of commercial banks and RRBs have been much simpler as well as customer friendly compared to that of cooperative credit institutions even before. The credit delivery system of these banks have recently undergone a fresh round of rationalisation and simplification on the basis of the recommendation of R.V. Gupta Committee. Though the recommendations of R.V. Gupta Committee do not have any direct impact on cooperatives, the reforms in the credit delivery system of commercial banks and RRBs as recommended by R.V. Gupta Committee will obviously make the credit delivery system of cooperative including ARDBs more obsolete. Serious effort have to be made to streamline the credit delivery system of ARDBs on an urgent basis in this context.

There is scope for lot of simplification in the loan application forms prescribed by most of the banks by eliminating duplications and questions eliciting information and data not very relevant the stage of application. Some times it is seen that while information which are not relevant are called for in the applications, certain relevant information are called for. The application forms of many ARDBs are very elaborate and complicated running into so many pages that the borrower has to

take the help of others to fill it up. With some thinking a simple one page application form can be designed calling for all relevant information and excluding information which are not relevant at the stage of application.

The document and records called for alongwith loan application for legal scrutiny are numerous in many banks. Sometime copies of all the village records relating to the security properly are required. Encumbrance certificates are also called for several times during the course of appraisal and disbursements. The efforts to simplify legal scrutiny made by some banks show that the documents required for legal scrutiny and the time and money spent for arranging such documents can be brought down, considerably.

The appraisal system followed by banks at present is also not conducive to a sound delivery system. In some cases field staff of the operating unit is not delegated powers to appraise applications beyond a certain amount and some times District and State level offices are required to appraise loan applications at the ground level. Similarly, different aspects of appraisal of the same loan is done by different officers separately leading to unnecessary delay and some times harassment of applicant. Lack of flexible approach and over dependence on generalised norms relating to scale of finance and inability to accommodate field level variations in assessing the cost estimates are also some of the short-comings of the appraisal system leading to under financing or over financing.

Application of information technology is another important aspect of streamlining systems and ARDBs is in varying stages of progress. NABARD gives assistance for computerisation from its

Cooperative Development Fund but there is no clear policy and common approach towards computerisation. NABARD assistance is available in the limited area of MIS.

Identifying operation areas for computerisation including that in the branches and PADBs and to evolve a plan of action to operationalise the system within a time frame are required. Development of software is another issue where little progress is made.

Human Resources

Staff Productivity:

The staff strength and productivity in terms of per staff business at SLDB and PLDB levels in 1997-98 are furnished below:

Table 2.4
ARDBs Staff Productivity

(Rs. in Lakh)					
Name of the Bank	Structural Pattern	Staff Strength		Per Staff Business	
		SLDB	PLDB	SLDB	PLDB
1. Haryana	Federal	170	1445	452	54
2. Himachal Pradesh	Mixed	117	42	70	54
3. Jammu & Kashmir	Unitary	200	-	11.6	-
4. Punjab	Federal	213	1356	450	71
5. Rajasthan	Fedreal	192	928	346	71
6. Assam	Unitary	528	-	-	-
7. Manipur	Unitary	44	-	1.35	-
8. Tripura	Unitary	Not available			
9. Bihar	Unitary	2196	-	8.5	-
10. Orissa	Federal	230	890	45	11

11. West Bengal	Mixed	148	692	171	35
12. Madhay Pradesh	Federal	787	3628	68	15
13. Uttar Pradesh	Unitary	3579	-	38	-
14. Gujarat	Unitary	1336	-	42	-
15. Karnataka	Federal	928	1485	109	65
16. Kerala	Federal	483	12561	173	63
17. Tamil Nadu	Federal	490	1524	180	56
18. Pondicherry	Unitary	12	-	54	-

Source: *Background Papers, 14th I.C.C., N.C.U.I, New Delhi, p. 89*

The productivity at apex level varies from Rs. 452 lakhs per staff in Haryana to Rs. 45 lakhs per staff in Orissa and Rs. 68 lakhs per staff in Madhya Pradesh.

While the business of Rs. 150 lakhs per staff at the SLDB level can be taken as the norm, the number of staff can vary depending upon the add-on services given by the apex to primaries like free service of technical personnel, incentives and subsidies etc.

States like Orissa, M.P. and Karnataka have to improve per employee productivity at the apex level either by substantially improving the business level or by deliberate measures to down size the staff.

The productivity at the PLDB level in the Federal structure varies from Rs. 71 lakhs in Punjab, Rs. 65 lakhs in Karnatakas, Rs. 63 lakhs in Kerala to Rs. 11 lakhs in Orissa, and Rs. 15 lakhs in M.P. Taking per staff business of Rs. 50 lakhs as the norm the PARDBs in M.P., Orissa and West Bengal have to achieve substantial improvement in productivity.

In unitary structure per employee business is highest in Pondicherry followed by Gujarat and U.P. whereas Manipur, Bihar and Jammu and Kashmir fall in the bottom line. Downsizing of staff may be required in banks having per employee business levels less than Rs. 35 lakhs.

Banks have to improve per employee productivity and to eliminate staffing by taking measures such as introducing VRS. Proper recruitment policy by progressively reducing dependence on deputation staff is required for professionalisation of management.

Training Needs and Infrastructure for Training:

ARDBs have training centres in 12 States. These centres mainly cater to the training needs of junior and middle level staff. Review of the working of the training centres indicates deficiencies in capacity utilisation, physical and academic facilities, faculty and curriculum development etc.

Recently NABARD suggested integration of the training centres of SCARDBs and State Cooperative Banks. On detailed consideration of the advantage and disadvantage of integrating the structures as pointed out by NABARD, the Board of Management of the Federation felt that integrating the training structures as proposed by NABARD will have more disadvantage for both the sectors than whatever advantage indicated by NABARD which mainly relate to reduction of saving in expenditure and financial support extended by NABARD to JLTCs of ARDBs and ACSTIs of SCBs. An integrated training institution cannot focus on the specific areas of skill development and training needs relating to

the operations of ARDBs. Instead of integrating these training structures the perspective strategy should be to strengthen the existing training institutions by maintaining its separate identity and removing deficiencies in their working.

Banks have to evolve a system to identify training needs at various levels in the organisation and to effectively make use of the training facilities within and outside the organisation to meet the training needs.

To sum up, it may be inferred that a conducive policy/legal environment may be created to professionals management by building own cadres of management and by strengthening the process of democratic control. The nominated members of the Board of Directors should be professionals in the field of operations carried out by the cooperatives. There should be proper recruitment policy coupled with career planning, transfer policy etc. There should be direct entry at officer level in stipulated percentage. Norms for employee productivity in terms of per employee business should be evolve and monitored. System of performance appraisal and evaluation on regular basis should be introduced. Norms for deciding the right size of staff depending on the business levels and potential for business growth should be evolved and measures should be taken to downsize staff wherever required. Banks should embark on a programme of member education to make them aware of their right and responsibilities and separate budget should be provided for this.

There should be proper assessment of training needs at various levels such as leaders, managers and staff for providing need based training. Measures may be taken to strengthen in house

training infrastructure. Banks should encourage staff and officers in self-training. Courses in the pattern of CAIIB may be evolved for this purpose. Staff may be motivated in self-training by early promotions, advance increments etc.

Chapter - III

*Land Development Banking
in Uttar Pradesh*

CHAPTER – III

LAND DEVELOPMENT BANKING IN UTTAR PRADESH

The previous chapter discussed the management pattern and organisational structure of Land Development Banks as prevailing in the different States of the union of India. The present chapter is devoted to trace out the need and origin of State Cooperative Village Development Banking in Uttar Pradesh and analyses its growth and role as a catalyst of economic progress and development of the State.

Uttar Pradesh is primarily an agriculture State. Agriculture development is important because it provides economic sustenance and builds up a strong industrial base. Capital formation and the level of economic activity depend upon the agricultural production. Thus, the development of agriculture is an ‘accelerator’ of the overall economic progress of the State and therefore, it is an imperative need to stabilize and strengthen the agriculture sector.

Credit Finance to Rural Sector

The agriculture sector is the major sector of the rural economy in which unemployment and underemployment prevail. Poverty is essentially a rural problem linked with the backwardness of

agriculture, which implies low productivity of land, low purchasing power of farmers and low capacity to employ more workers gainfully. Dandekar and Rath say that "Urban poverty is an overflow of rural poverty. Hence action against poverty has to be initiated in rural areas. The creation of optimal employment opportunities in agriculture reduces rural poverty. More employment in agriculture is possible when its productivity is raised. Fortunately, "there is a considerable scope for agriculture productivity because the present productivity is no more than one-third of what it could be. If agricultural productivity is doubled, it will give a boost to the secondary and tertiary sectors. Improving social as well as economic life of agriculturists depends very much upon the development of agriculture and horticulture. The Development of agriculture, horticulture, however depends upon several inputs, and the one significant input that can help the farmer to employ the other inputs is the capital namely CREDIT.

The credit provided by private agencies is cumbersome and its main aim is to bring the farmers in the grip of perpetual indebtedness. Similarly the majority of formal lending institutions whether public or private provide virtually no access to credit to poor and small land owners. The indigenous bankers and money lenders provide only short term loans. The working operations are also out dated and irrational. The Primary Credit Societies Central Co-operative banks and other apex banks provide only short and medium term loans on account of their meager funds. Thus the non-institutional credit has not proved beneficial to the farmers in as much as it hardly provides any incentive to effect improvement on the land. Agriculture requires special and separate treatment in

the field of finance as the condition in this profession is entirely different from those in manufacturing industries. There are small units of production to be dealt with. There is no control over the yield any quality and there is lack of organization and land is not a suitable security for loans. Thus the problem of rural finance is peculiar.

Types of Agriculture Credit

A purpose-wise classification of agriculture credit available to the farming community from the lending institutions is as follows.¹

1. **Capital Expenditure:** Purchase of land, land reclamation. Construction and repairs of bunds, well and other sources of irrigation, purchase and repairs for construction of farm-houses, additions, etc.
2. **Current Expenditure:** Purchase of Seeds, fertilizers, manure, fertilizers, fodder, hiring charges, rent, land revenue and other expenses.

The period-wise classification of agriculture credit is divided into three parts, as follows:-

1. **Short-Term:** Short-term credit are usually made to agriculturists for period ranging from six to fifteen months and are primarily meant to meet seasonal requirements such as seeds,

1. Reserve Bank of India, "Rural Credit Follow Up Survey", Bombay, 1959-60, p.76.

manure fertilizers and insecticides. Such advances are expected to be repaid at the time of harvest.

2. Medium-Term: The period of medium-term advances generally ranges from fifteen months to five years and they are for purposes such as the purchase of tractors, power-tillers, pump-sets, agricultural implements, bullocks, etc. They have to be repaid by half-yearly or annual installments which usually coincide with the period of the harvesting of crops.

3. Long-Term: This type of credit is given for a longer period varying from five years to fifteen years. (It may be extended upto 20 years under special circumstances) and is meant for the purpose such as payment of old debts. Purchase of costly implements and also for carrying out permanent improvement involving high cost, construction of tube-wells and increasing the size of the holding.

The 9th Indian Congress, held on April, 26-28, 1982, had also adopted the following resolution regarding classification of agricultural credit:-

“The Congress recalls that the L.D.B. Federation and the 8th Indian Co-operative Congress had opined for classification of agriculture credit into production credit/working capital (Short term) and investment credit (term credit) since the present classification according to period of loans was found unscientific and confusing. Committee to Review Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD) has also made a similar recommendation. The

congress, therefore,, urges upon the R.B.I. to take a decision in this regard so that the Land Development Banks could provide all types of investment credit irrespective of period constraint.”²

Need For Long-Term Credit

Almost all types of credit are needed by the farmers at different stages of farming like short-term, medium-term and long-term to make their agricultural operation, successful. The gainful utilization fund available from one source depends on the simultaneous availability and use of funds from other sources. Long-term has certain distinction over other kind of finances. Assets creation and permanent improvements in farm could be possible only by the use of long-term finance. The long-term finance is required for the following purposes:-

- 1- **To make the holding economically viable:** When the size of holding are small its is imperative to make the holding economically viable. A viable economic holding can be attained either by adding a new acreage to the exiting holding or by intensifying the agricultural operations on the existing holding. Since the consolidation of fragmented holdings due to pressure of population on land becomes a difficult task, the only alternative is to intensify the agricultural operation under the existing holding and this is possible only by means of making permanent improvement

2. National Cooperative Union of India, 9th Indian Co-operative Cogress (April 26-28, 1982). Background Papers, Part II, p.27.

over the land and increasing the outlay on input. For this purpose, long term loans are needed.

- 2- **To provide permanent irrigation facilities:** The farmers traditionally use wells as their permanent source of irrigation. But it needs improvement by way of deepening the well or erecting pump sets. Long-term finance is needed for such purposes. Even to dig new wells, heavy investment in the form of long-term credit is needed.
- 3- **To liquidate the rural debts:** Rural indebtedness has a cancerous growth and liquidated many farming families and converted them into the landless labour class. This caused the transfer of land from those who do it by hired labour. To avert such happening in future, it is possible only by means of providing long-term loans to pay off the old debts taken from private money-lenders.
- 4- **To mechanize agricultural operation:** One of the good effects of green revolution is the move towards mechanization. Mechanization started with erecting pump sets to the wells and non-tractorisation of agriculture as a latest phenomenon is gaining currency. As heavy investment is needed for such machineries, the farmers are in need of long-term finance.
- 5- **To reclaim land :** When lands are brought under new irrigation projects under canal or river irrigation schemes they need long term finance to make the land fit for new cultivation. During such times they have to level the lands, make the bounds, remove the subsoil and deep ploughing in the lands which are traditionally cultivated without applying

any manures or fertilizers. For these purposes long-term loans are needed.

- 6- **To make new lands fit for cultivation:** To cultivate follow land and to bring new lands under cultivation, the deep ploughing, removing the tree and bushes in cash of forest lands, bunding and fencing activities must be undertaken which require heavy investment.
- 7- **To make permanent improvement in land:** When permanent improvements in the form of assured irrigation facilities, mechanization, etc. are made, the farmers can get assured income and concentrate more on making farming as a business. Incentives to produce more and to have higher standard of living is possible only or making agriculture as a business which, in turn, is possible by making permanent improvement on lands. Hence, there is need for long-term credit.
- 8- **To make viable the small and marginal farmers:** Small and marginal farmers cannot become viable farmers simply by depending on agriculture alone. They have to engage in other allied occupations like dairying, poultry and the like. Subsidiary occupations can enhance their income and can provide potential source of income to all kinds of farmers.
- 9- **To encourage the plantation crops:** Plantation crops, which are earning foreign exchange, need be encouraged. Their gestation period is long and also need heavy investment. To cost of cultivation and method of cultivation are having greater bearing on cost. For new years the farmers have to

invest money without any immediate returns Long-term alone can give a relief to such farming

Sources of Farm Credit

The present system of agriculture credit in Uttar Pradesh mainly consists of two sectors viz , the institutional and non-institutional The non-institutional sector consists of the professional money-lenders, agriculturists, traders and commissions agents, landlords, relatives and friends of the farmers and others The institutional sector consists of the cooperatives, the commercial banks and the government A relative significance of these agencies in supplying the agricultural credit was brought to light in comprehensive manner for the first time in 1951-52 by the All India Rural Credit Survey Committee (1954) in its survey report After a decade, another survey was conducted by the Reserve Bank of India viz All India Debt and Investment Survey, 1961-62 Similar survey was also conducted by the RBI in 1971-72 They show position of different agricultural credit agencies providing agricultural credit to the farmers which is shown in Table 3 1

Table 3.1

Cash Loans Borrowed by the Classified According to Credit

Agency – All India (%age)

S No	Credit Agency	1951 ¹	1961 ²	1971 ³
1	Government	3 3	2 6	7 1
2	Co-operative	3 1	15 5	22 0
3	Commercial Bank	0 9	0 6	2 4
4	Insurance	-	-	0 1
5	Provident Fund	-	-	0 1

A. Institutional Agency (1to5)	7.3	18.7	31.7
6 Land Lords	1 5	0 6	8.1
7 Agriculturist Money Launderers	24 9	36 0	23 0
8 Professional Money Launderers	44 8	13 3	13 1
9 Trade and Commission Agents	5 5	8 8	8 4
10 Relative and Friends	14 2	8.8	13 1
11 Other	1 8	13 9	2 6
(B) Non Institutional Agencies			
(6 to 11)	92.7	81.3	68.3
Total (A + B)	100.00	100.00	100.00

Sources:- 1 All India Rural Credit Survey Report Vol II (1954), R B I , P 167

2 All India Debt and Investment Survey, 1961-62, p 14

3 All India Debt and Investment Survey, 1971-72, p. 40

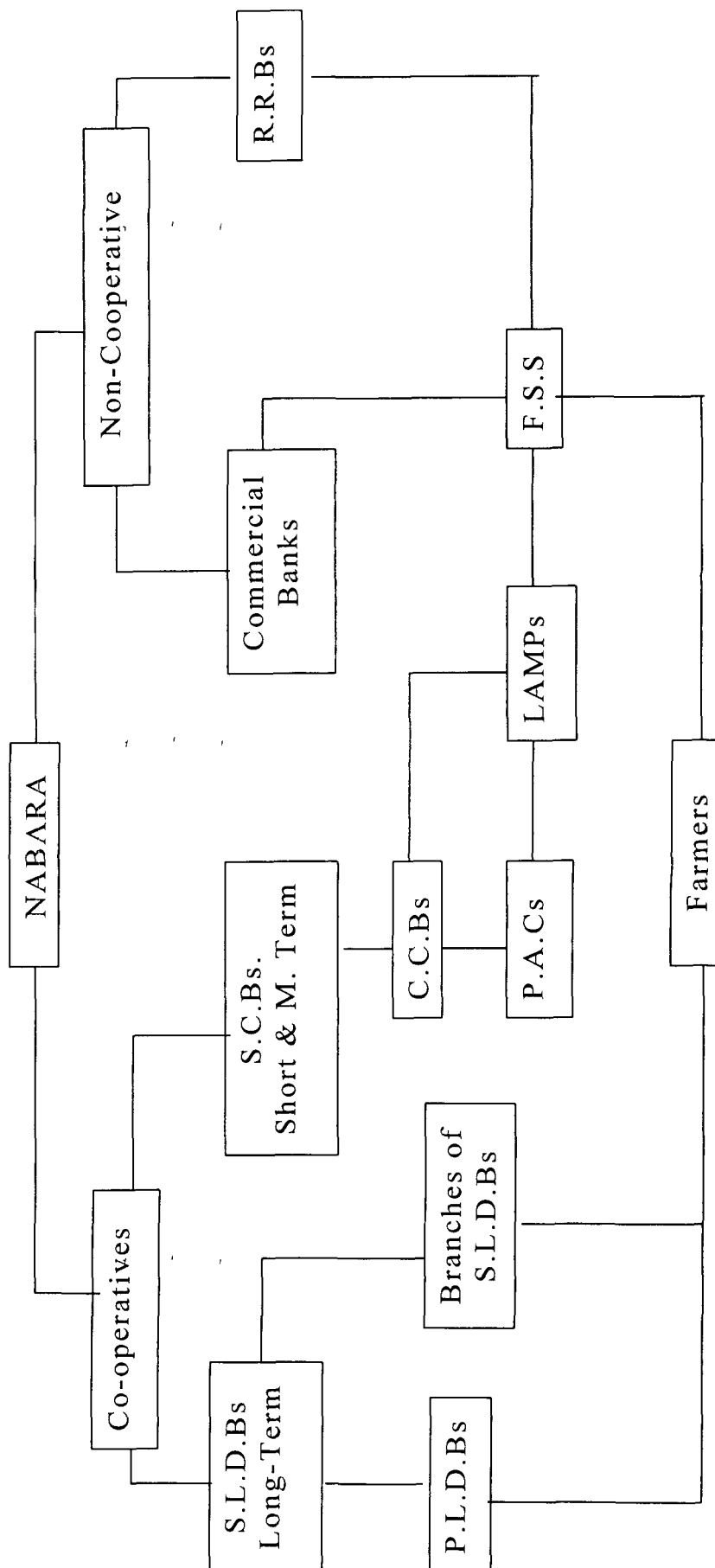
Note:- For 1951 and 1961 Survey data in respect of Insurance and Provident Funds were not Collected Separately

At present the direct finance for agriculture is being provided under institutional sources by the Cooperatives, Commercial Banks, Regional Rural Banks and the Government. These agencies supply two types of credits viz. short and medium and long-term agricultural credit. The chart 3.1 illustrates the flow of credit to the farmers in the whole country.

Though the multi-agencies approach has been adopted in the agriculture credit, but the movement of cooperation in general and credit agencies in particular got impetus with the start of planning phase in Uttar Pradesh. The First Five Year Plan of the country very rightly recognized cooperative as an "Instrument of Economic action in democracy". At present, the national policy is to promote

CHART 3.1

All India Agricultural Credit Structure at A Glance



Source: Background paper 13th I.C.C., N.C.U.I., New Delhi.

cooperatives as the principal institution for promoting and energizing economic activities in rural area. In other words, cooperative agency has been recognized as better suited than the State for ensuring proper utilization of credit for productive purposes.

As evident from the chart 3.1 the short and medium term agricultural credit system, the cooperatives have a three-tier structure with the State Cooperative Bank at the State level, the Central or District Cooperative Banks at district level and the primary agricultural credit societies at the base or village panchayat level. The long-term credit cooperative are organized in a two-tier structure consisting of the State Land Development Banks at the State level and the Primary Land Development Banks / branches of the SLDBs at district / tehsil level.

Emergence of The Land Mortgage/ Development Banks

The modern cooperative movement was officially launched in India only in the year 1804, with the passing of the Cooperative Credit Thrift Societies Act, by the Central Government. The Act was revised and broad-based in 1912 and 1919. When cooperative became the State subject, different laws were passed in different States, since then, several primary credit societies cropped up all over the country. They provided short, medium and long-term credit to the farmers for productive purposes. But experiments in long-term credit by village cooperative credit societies miserably failed. Defaults were common and overdues mounted up without any timely action. Societies themselves could not tap long-term deposits and had to depend on central cooperative banks for

accommodation. As long-term finance involved questions relating to title, valuation of property, assessment of repaying capacity, etc. these technical aspects of the problem could not be met by the staff of ill-equipped village cooperative credit societies. Again, for long-term investment, commercial banks were considered as an unsuitable credit agencies due to composition of their funds accruing through deposits mostly payable on demand or at short notice. Though the increased stress laid on agricultural development in the new 20-point economic programme, the Union Government has decided to set up flow of credit to the agricultural sector by 19 percent through nationalized banks during 1982-83. But the Bank should not grant loans of a higher amount only because the security offered, if any, by the borrower would over a bigger loans and also if the land holding is small or return to be expected is small, the Bank should not grant loans and the borrower be asked to approach Land Development Banks(LDBs). The agency of indigenous bankers also dealt in money lending. But their meager resources does not permit them to invest their funds for long periods. Besides they charge high rates of interest and demanded principal and interest Bank in one installment. They also lacked friendly and sympathetic approach needed for long-term financing to cultivators. All this created a need for a separate agency for long-term agricultural credit.

Sir Janassan Maan did not altogether agree with Rothfield that the supply of long-term credit was necessarily a function of the State. But it was primarily the need to find an outlet for surplus cooperative land mortgage banks. Such banks would concentrate on the supply of long-term credit, generally to those

reasonably substantial cultivators who did not find the cooperative movement very attractive. The Central Banking Inquiry Committee also recommended that "it is now being realized by every competent authority on cooperative credit in India that the existing primary societies, central banks and provincial banks by reasons of character of their resources and other obvious limitations from a banking point of view, can supply only short and intermediate credit. They most, can supply only short and intermediate credit. They, therefore, be supplemented by other types of organizations dealing specifically with the problem of long-term credit. The separate agency for providing the long-term credit has been recommended by the various commissions and committees. Hence, arose the need for special type of credit institutions generally called "Land Mortgage Banks". These banks displaced not only the money lender but also the present unsatisfactory system of State loans and by lowering the rates of interest, they brought many productive improvements within the reach of the land-holders.

After the All India Rural Credit Survey Committee recommended the real growth of Cooperative Land Development Bank with State support start. Emphasising the need for strengthening the cooperative credit structure, the All India Rural Credit Survey Committee recommended organization of Central Land Mortgage Bank in all the States. Stress was also laid for reorienting their policies from financing old debts to provision of finance for improvement of land and development of agriculture. The committee further suggested the needs for simplifying the loan procedure and channeling by State government of all Takkavi funds through the Land Development Banks. To strengthen the

long-term credit structure, recommendation was made for share capital contribution from the Government to the Central Land Mortgage Bank at least upto 51 per cent to enable them to borrow funds and provide loans adequately.

As a result of the recommendation of All India Rural Credit Survey Committee, during the plan periods, the Land Mortgage Banks switched over the function from 'Mortgage Banking' to 'Development Banking'. Agricultural Development Banks were organized in other States also in the subsequent year during the five year plans. At the end of Second Plan (1960-61), there were Land Development Banks in 18 States, including in Uttar Pradesh.

Establishment of Uttar Pradesh State Cooperative Village Development Bank Ltd.

In spite of much progress made in the field of land mortgage banking in various States of the Country, the State of Uttar Pradesh remained far behind them. The agriculturists of the State were deprived of the benefits of land mortgage banking, even after one decade of the attainment of Independence and they remained dependent upon other sources of lending. After Independence, the All India Rural Survey Committee recommended in 1954 the establishment of Central Land Mortgage Banks in every state and also recommended that the tenure and tenancy laws should be revised accordingly. In spite of these efforts, the people of Uttar Pradesh suffered due to non-existence of such a specialised institution.

There was a growing need of heavy finances, particularly after the abolition of Zamindari, larger amounts were required to

meet the long-term credit needs of the farmern for purchase reclamation and permanent improvement of lands and also for the redemption of old debts. Moreover, the existing cooperative credit agency (the Provincial Cooperative Bank in the State was helpless without the Government's financial support to have a separte long term department or to establish a separate institution for dealing with long term agricultural credit in the state. The Reserve Bank of India was not in position to provide financial support for long-term purposes due to legal limitations.

This way, the prospects of establishing a Central Land Mortgage Bank in the State were bleak. But the second five year plan (1956-61), provided for the establishment of a land mortgage Bank in the State. The plan set a target for the cooperative sector to distribute long-term credit to the tune of Rs.25 crores through land mortgage Banks. Thus, provision were made in the cooperative development plans of the states for the establishment of new Central and Primary Land Mortgage Banks and for strengthening the existing ones.

At the same time, the Reserve Bank of India Act was amended in the year 1955 to enable the bank to play a constructive role in the sphere of rural credit and cooperation. In this amendment, provisions were made to set up a National Agricultural Credit (Stablization) Fund for short-term facilities and a National Agricultural Credit (Long-term operations) Fund for Long-term faciliteis upto 20 years, by purchasing debentures of Central Land Mortgage Banks and for providing loans to State Governments for the purchase of shares of Land Mortgage Banks. In addition, the Reserve Bank of India, on the recommendation of

Rural Credit Survey Committee, initiated a scheme in November 1957, to encourage Central Land Mortgage Bank to float "Rural Debentures" for shorter periods, e.g. six or seven years to meet their short-term requirements. this scheme of rural debentures was further reviewed by Reserve Bank's Standing Advisory Committee in July, 1958, and a new scheme of rural debentures for a period from 7 to 15 years was announced by Reserve Bank of India in September, 1958.

Besides rendering financial facilities to Central Land Mortgage Bank, the Reserve Bank of India also used to extend expert advice form time to time to these banks regarding the floating of debentures and financial operations.

Establishment of State Cooperative Land Mortgage Bank in Uttar Pradesh

As a result of recommendations of All India Rural Survey Committee and the allocation of funds in the Second Five Year Plan for Central land mortgage banks and also the amendment in the Reserve Bank of India Act, the Government of Uttar Pradesh realized the urgency of establishing a separate agency in the State. Thus, the Uttar Pradesh State Cooperative Land Mortgage Bank (known as Uttar Pradesh Sahkari Gram Vikas Bank Ltd. Since 9 June, 1994) was registered on March 12, 1959, under the Cooperative Societies Act 1912 (vide Registration No. 1505) with its headquarters at Lucknow. The actual functioning of the Bank started after a year of its registration in May 1960, only when a Board of Directors was nominated by the State Government in January, 1960.

Membership: Member ship of the Bank was only 604 during the first year (1960-61) of it working. This rose to 3,46,154 in 1970-71 and 11,37,185 in 1980-81 and 22,41,924 in 1990-91. It membership further rose to 38,47,362 in 1999-2000 and 40,24,559 in 2000-01 and 42,05,528 upto 31st March 2002.

Financial Position: The bank started its operations in 1960-61 with a very ordinary and poor financial base of 15.3 lakh only. But it improved its finance gradually so much so that on 31st March 2002 it total share capital was Rs.167.69 Crores. Its share capital, working capital and owned capital is shown in the table 3.2

Share Capital: The share capital of the Bank, which was Rs.0.15 crore in the beginning, rose to Rs.6.10 crore in 1970-71, Rs.28.22 crore in 1980-81. Keeping its increasing trend it rose to Rs.53.27 crore in 1990-91, Rs.82.51 crore in 1995-96 and 150.65 crore in 2000-01 and mounted to Rs. 167.69 crore up to 31st March 2002. The Table shows that the amount of share capital has been gradually increasing during the last 42 years of the bank's working and this increasing trend of share capital is primarily an outcome of constantly growing membership of the Bank.

Working Capital: The Bank started its operations with Rs.0.16 crore as working capital in 1960-61 which gradually rose to Rs.93.81 crore in the year 1970-71 and Rs.361.85 crore in 1980-81. The working capital of the bank was further increases to Rs.

TABLE - 3.2

**Capital Resources of U.P. State Cooperative Village
Development Bank Ltd.
1960-61 to 2001 2002**

<i>(Rs in Crores)</i>			
Year	Share Capital	Working Capital	Owned Capital
1960-61	0 15	0 16	0 16
1965-66	0 88	9 15	0 95
1970-71	6 10	93 81	6 80
1975-76	14 91	226 85	19 50
1980-81	28 22	361 85	44 66
1985-86	35 21	441 03	76 27
1990-91	53 27	711 09	106 53
1991-92	57 78	805 29	115 80
1992-93	61 82	879 32	120 40
1993-94	68 25	977 94	128 07
1994-95	74 07	1129 15	156 39
1995-96	82 51	1287 82	183 05
1996-97	92 21	1465 56	202 56
1997-98	89 62	1673 93	209 26
1998-99	107 58	1916 75	227 24
99-2000	127 11	2191 50	246 77
2000-01	150 65	2528 58	283 99
2001-02	167 69	2983 96	309 45

Source 36th Annual Report (2000-2001), Progres at a glance

711.09 crore in 1990-91 and Rs.1287.82 crore in 1995-96. It reached to Rs.2528.58 crore during the year 2000-01 and on 31st March 2002 the working capital of the bank was Rs.2983.96 crore. As deciphers from the table 3.3 there has been a regular increase in working capital of the Bank. This upward trend of working capital indicates soundness of the Bank's financial base and its regularly expanding business.

Owned Capital: With the expansion of share capital and working capital, the owned capital of the Bank also rose to Rs.309.45 crore by the end of March 2002 as against Rs.106.53 crore in 1990-91, Rs.44.6 crore in 1980-81 and only Rs.0.16 crore in 1960-61. In other words, the Bank's own contribution towards its funds seems to be quite satisfactory as witnessed by its increasing trend.

Loan Disbursements

The land Development Bank is one of the major sources of long-term credit for investment in the state agriculture. Since its establishment, the bank disbursed loans to the tune of Rs.5702.85 crore through its 335 branches to its 4205528 members upto 31st march 2002.¹ Loan amounting to Rs.5702.85 crore were disbursed by the bank during the year 2001-2002 alone. The bank disburses loans mainly for Minor irrigation which is 50.89 percent of total loan disbursed to 43.13 lakh benefiteres to whom Rs.5702.85 crore has been sanctioned by the bank in the last 43 years. Among these loans Rs.2901.97 crore has been sanctioned to 31.53 lakh

1. Progress at a Glance, 36th Annual Report Uttar Pradesh Sahkari Gram Vikas Bank 2000-2001.

benefiters for minor irrigation only. At present, the bank has irrigated 52.37 lakh hectare extra land through its irrigation scheme. The bank has sanctioned loan of Rs.680.15 crore against its target of Rs.630.00 crore in the year 2001-2002. The Bank has disbursed loan amounting Rs.174.05 crore up to 31.07.2002 against its target of Rs.725 crore in the year 2002-2003.

Besides these the bank is providing loan to the other purposes for improving the economic condition of farmers through the development of agriculture and allied sector. The bank is providing loans for the following purposes:

- 1 Minor irrigation
- 2 Farm mechanization
3. Dunlop cart
4. Dairy
5. Animal husbandry
- 6 Poultry
- 7 Fisheries
8. Horticulture
9. Non- Farm section
10. Rural Housing
11. Bio-Gas
12. S.R.T.O

Recovery of Loans: In the sphere of loaning activities, timely repayment of loans is more important than expansion in its lending. The lending on sound footing requires smooth flow of funds and the clogging in proper refunding weakens the financial structure of the loaning institutions. Therefore, the Uttar Pradesh

**Year Wise Progress of Repayment of Loans for the Period
from 1960-61 to 2001-2002**

Year	Due for repayment	Recovery of Loans	Percentage of recovery
1960-61	---	---	---
1965-66	0 45	0 41	91 11
1970-71	8 48	7 46	87 97
1975-76	40 78	33 88	83 08
1980-81	88 31	62 04	70 25
1985-86	114 37	87 26	76 30
1990-91	304 13	197 75	65 02
1991-92	281 85	197 20	69 97
1992-93	270 48	196 71	72 73
1993-94	297 05	214 68	72 27
1994-95	338 76	258 58	76 33
1995-96	376 88	298 02	79 08
1996-97	369 33	294 37	79 70
1997-98	390 58	316 89	81 13
1998-99	430 69	354	82 19
99-2000	514 74	453 99	88 20
2000-01	648 68	559 16	86 20
2001-02	815 61	701 34	85 99

Source *Compiled on the basis of 36th Annual Report (2000-2001),
Progrss at Glance, U P Sahkari Gram Vikas Bank Ltd, Lucknow*

State Cooperative village Development Bank pay much more attention to recover the loans instalment and interest on loan within the prescribed time limit. In spite of this, the cent percent recovery of dues is not possible on account of natural as well as human factors. The year wise progress of repayment of loans for the period from 1960-61 to 2001-2002, in table 3.3

Amount due for repayment and its recovery in table 3.3 between 1980-80 to 1992-93 indicates that there has been a widening gap between the two. This is on account of implementation of special schemes and Bank's diversification of its funds towards different sector of agricultural development. Thus, the disbursement of loans has been expanding not only due to the special schemes but also on account of the banks loaning facilities to small and marginal farmers, who constitute a large chunk of rural population. However, the recovery percentage of bank in succeeding years has been improved from 70 per cent in 1991-92 to 86 Per cent in the year 2001-02.

Expansion of Branch Network

Owing to shortage of trained personal in the filed of Land Mortgage Banking, initially only 30 branches of the Bank were opened in the year 1960-61, at the headquarters of the Districts: (1) Agra, (2) Aligarh, (3) Allahabad, (4) Bijnor, (5) Bareilly, (6) Bahraich, (7) Banda, (8) Barabanki, (9) Basti, (10) Doria, (11) Dehradun, (12) Faizabad, (13) Gorakhpur, (14) Gonda, (15) Hamirpur, (16) Hardoi, (17) Jhansi, (18) Kanpur, (19) Lucknow, (20) Lakhimpur Khiri, (21) Meerut, (22) Mathura, (23) Moradabad, (24) Mirzapur, (25) Muzaffarnagar, (26) Pratapgarh,

(27) Rampur, (28) Saharanpur, (29) Shahjahanpur, and (30) Varanasi.

These branches worked under the guidance of Uttar Pradesh State Cooperative Land Mortgage bank, and provided long-term credit to individual agriculturist and cooperative farming societies, for the following purposes:

1. Liquidation
2. Redemption of mortgages on land or other immovable property;
3. Improvement of land, that included the raising of orchards, construction of cattle sheds and godowns at the farm for storage of agriculture produce and introduction of better methods of cultivation;
4. Minor irrigation scheme such as pumping sets, tubewells, oil engines, masonry wells, persian wheels, bundhies etc, and
5. Purchase of land intervening between the field of the borrower so as to consolidate his holdings, and of land contiguous to his holdings so as to secure more efficient and economic cultivation thereof.

Sanction and Disbursal of Loans by Branches

Loans provided by the branches ranged from a minimum of Rs.500/- to Rs.15,000/- to an individual member and up to Rs.50,000/- to a cooperative society. These loans were advanced for the period extendable up to maximum of ten years, at the interest rate of 7.5 percent per annum. Rebate was also allowed at the rate 0.5 percent to an individual member and 1 percent to a cooperative farming society, in case they repay the loan and

interest within the prescribed time. Loans were advanced on the mortgage of unencumbered, bhumidari lands up to 50 percent of their value. The value of the land was calculated on the basis of a uniform formula prescribed by the State Land Mortgage Bank. It was 80 times of the actual land revenue or 40 times of the revenue calculated on the basis of circle rate, whichever was higher, plus 20 times of the difference of both the above revenues. However, loans were not provided to the holders of Sirdari and Asami lands and members of joint and collective cooperative farming societies.

In spite of the sincere efforts, the progress of Land Mortgage bank in Uttar Pradesh was rated to be not so encouraging in the first year of its establishment. Only 597 members could be enrolled in 30 districts of the State, out of which only 272 borrowed loans totaling to Rs. 2.72 lakhs, while working capital of the bank was Rs. 16.04 lakhs.

It was pointed out that the scheme could not run successfully unless the field staff of the Cooperative Department treated it as a part of its routine duties and gave to it the attention that it required.

By the end of the second year of its establishment, the bank had disbursed Rs.16.25 lakhs through its branches against Rs.25.98 lakhs sanctioned to 1,138 loanees up to June 1962, although the number of applicants was as high as 2,500. The Bank failed to advance loans to other applicants due to non-availability of required funds from the Government.

To overcome the financial difficulties, the state government was approached to stand guarantee for temporary loans from the State bank of India, to the extent of Rs. 50 lakhs which could be

repaid by floating debentures. But the government agreed to a sum of Rs.25 lakhs only, which was equivalent to half of the total requirement.

With such limited resources, the bank has no other alternative, except to seek help once again, from the Registrar, Cooperative Societies and Managing Directors of the District Cooperative banks of the State for opening of more Branches in the remaining district of the State. The Registrar Cooperative Societies put at the disposal of the Bank the services of one cooperative Inspector in each district where new Bank branches were to be established. The District Cooperative Banks provided part-time services of one of their accounts clerks at each new branch and also provided free accommodation in their premises for the new branches.

With the establishment of Bank branches in almost every district of the State, the Uttar Pradesh State Land Mortgage Banks also decided in November 1962 to advance long-term loans against the simple mortgage of "Sirdari Lands" to agriculturist, possessing unencumbered lands under the conditions and procedure governing the loans in the case of Bhumidhari lands, with the following exceptions:

1. The maximum limit of loan advanced was 30 percent of the value of Sirdari Land.
2. The purposes for which loans were advanced included:
 - a. Minor irrigation, e.g. tube -wells, oil engines, pumping sets, Persian wheels, masonry wells and bundhies.
 - b. Purchase of costly agricultural implements.

c. Permanents improvement of land including orchards.

Considering the growing need of long-term finances, the Bank also agreed in March 1963 to provide long-term loans to cooperative collective farming societies, on the same terms and conditions as in the case of individual borrowers, except that:

- a) The maximum loan admissible to cooperative collective farming societies was Rs. 50,000/- as against Rs.15,000/- to an individual.
- b) Rebate in the rate of interest for timely payment of loans installment was 1 percent instead $\frac{1}{2}$ percent to an individual.

Initially, the Bank was unable to advance loans to cooperative Joint Farming Societies, since such societies did not possess the right to mortgage the pooled lands of its members as the ownership continued to vest in the individual members. But legal experts suggested a via-media that enabled the Bank to finance joint farming societies also. According to this, each member of such society having mortgageable right over his land, and desiring to get long-term loan, had to execute separate deed in the office of the Sub-Registrar (Registration) of the concerned areas to enable the society to get loans as many times as the society authorized by its members to do so.

To provide sufficient amount of loans on the mortgaged property, the Bank revised the existing formula for valuation of land in November and December, 1963. This was applicable to all the districts of the State except the districts of Kumaon, and Uttrakhand Division and the hilly areas of Dehradun District. The revised formula was: "Hundered times the actual land revenue or fifty times the revenue calculated on the basis of the circle rate

whichever is high, plus twenty-five times the difference of both, the actual and calculated revenues.”

The formula was applicable for the valuation and advancement of loans on fixed assets and groves which were mortgaged to the bank, in all the districts of the state, except the districts of Kumaon and Uttrakhand division and Dehradun district. Thus, the value of hypothecation was enhanced by about 15 percent over the earlier formula.

Bank, which was depending till then on the “Interim Finance” from State Bank Of India, with the State government Guarantee and Share money, raised its own funds for the first time in January 1963, through the main source, i.e. floating of debentures.

The first series of Uttar Pradesh State Cooperative Land Mortgage Bank's Debenture, which was opened at 10 a.m. on January 24, 1963, had been oversubscribed within a few hours and there fore closed down at 2 p.m. on the same day. The overwhelming support from investors was on account of some of the advantage of these debentures.

These debentures were guaranteed by the State Government regarding repayment of the principal amount and payment of interest. They were secured on the first mortgage of agricultural land of double value than the mortgage amount. A debenture redemption Fund was created for the repayment of debentures on maturity. These debentures were free from Income Tax for all cooperative institution. They could be sold on the Stock exchange, like any other securities. The State Bank of India and the Reserve Bank of India could permit overdrafts and loans on the security of

these debentures. Similar to this, other series were issued subsequently.

Besides financial support to the Land Mortgage Bank, the State government also made certain concessions to encourage the prospective borrowers of the bank, since February 1964, the borrowing member of the Land Mortgage Banks were exempted from paying any stamp duty on the loans amounts up to Rs 5,000/- and if the amount of loans exceeded this limit, the stamp duty was charged at half of the prescribed rate. In November 1963, the borrowing members of this Bank were also exempted from the payment of any registration fee on mortgage deeds. Further, in December 1962, members of the Bank were exempted from stamp duty on affidavits filed for completing the formalities for getting long-term loans.

Almost all other states had their separate Acts of Land Mortgage Banks. But in Uttar Pradesh the State Cooperative Land Mortgage Bank was functioning under the Cooperative Societies Act of 1912 and was primarily meant for the regulation of cooperatives in general rather than for highly technical and specialized land mortgage banking. In the absence of any separate Act, the Bank faced various technical and procedural difficulties in its functioning in Uttar Pradesh.

Uttar Pradesh State Cooperative Land Development Bank's Act 1964.

To improve the functioning of the Land Mortgage Bank, the Uttar Pradesh State Cooperative Land Development Bank's (Uttar Pradesh Act No. XVI of 1964) was passed in 1964, which came

into practice from 15th August of the same year. The name of the Bank was also changed from “Uttar Pradesh State Cooperative Land Mortgage Bank Ltd.’ To Uttar Pradesh State Cooperative Land Development Bank Ltd. so as to make its name indicative of the purpose of the Bank rather than its procedure and eliminate the fear from the minds of agriculturists arising out of the word ‘mortgage’ associated with its name earlier. Soon after the enactment of the Act, branches of the Bank were opened at Tehsil level in various districts.

Moreover, to provide special facilities and funds for minor irrigation, the Government of Uttar Pradesh took a major policy decision in October, 1965, to channel Taccavi Funds through the Land Development Bank for development of Private minor irrigation works. This decision was implemented on an experimental basis in seventeen districts of the state where the Land Development Bank was the solo financing Agency.

To provide long-term loans to farmers with the coordinated efforts of the Land Development Bank and other Governmental agencies, the scheme of channeling the Taccavi Funds through the Bank produced better results as would be evident from table. In decipher from the above, there was a sudden spurt in advancement of loans during the year 1965-66, resulting from the channeling of Taccavi Funds through the Bank. Over the period, there was an upward movement in loan disbursement and, by the year 1967-68 the Uttar Pradesh State Cooperative Land Development Bank stood at the fourth place in the country so far as loan advancement is concerned.

For the benefit of small farmers, some more special schemes were implemented and special facilities were provided by the Bank in the year 1970-71.

Small Farmers Development Agency (S.F.D.A.)

Under this scheme, four backward districts of the State, viz. paragraph, Rae Bareilly, Fatehpur and Badaun were selected and special facilities for development of minor irrigation works were provided to small farmer having cultivable land between 2.5 ha. And 7.5 ha. The farmers were allowed to deposit their share money from the amount of loans granted to them, instead of deploying their own meagre resource. Besides they were required to pay only 3 percent of share money instead of 5 percent.

Marginal Farmers and Agricultural Labourer's Development (M.F.A.L.)

Under this scheme, Mathura and Ballia districts of state were selected in 1971 to provide finance for development of minor irrigation works and for purchase of milch cattle to marginal farmers having cultivable land upto 2.5 acres and also to those of agricultural labourers.

Control and Coverage of New Schemes by the Bank.

To have a better control and supervision over the Bank's branches, the Uttar Pradesh State Cooperative Land Development Bank established its Regional Offices at Allahabad, Faizabad, Varanasi, Gorakhpur and Lucknow in September 1975. Further, Regional Offices were also established at Meerut, Agra and

Bareilly in February 1976 and at Jhansi and Moradabad in August 1976.

Fixed Deposit Scheme

For the first time in the history of the Bank, a fixed deposit scheme was introduced in May 1972 with the prior permission of the Reserve Bank of India, to meet the internal financial requirements with its own resources. Under this scheme, the rate of interest offered was 7 percent per annum for a period of one year and 7.5 percent for two years against the fixed deposits. Later, in the year 1974-75, the rate of interest was raised to 8 percent per annum for the period up to two years. The scheme was an additional source of funds for the Bank and proved successful as witnessed by the deposits of Rs.66.59 lakhs and Rs.94.86 lakhs in the first and the second years respectively.

World Bank Scheme

For the first time, a World Bank Scheme was introduced in the districts of the State in 1973, after an agreement between the Uttar Pradesh State Government, the Agricultural Refinance and Development Corporation and the World Bank (International Development Agency) on June 8th, 1973. Under this scheme, 34,500 tube-wells, 15,000 pumpsets, 2,131 borings and rehats and 4,047 irrigation wells were constructed in three years period with total cost of Rs.45.93 crores inclusive of the World Bank share of Rs.28 crores.

Participation of (State Cooperative Village Development Bank) in 20 Points Programme:

The Uttar Pradesh State Cooperative Village Development Bank Ltd, in pursuance of the twenty point programme of the late prime Minister Mrs Indira Gandhi, extended its operation to provide the following additional facilities to the cultivators

- 1 Agriculturists owning cultivable lands of 4 acres and 2 acres became eligible for tractor loans and tube-well loans respectively
- 2 The limit of loans for tractors was raised from Rs 30,000/- to Rs 50 000/-
- 3 Pass-Books were issued to every borrowing member to maintain full record of borrowing and repayments, and adjustments of repayments were allowed from the amount of interest on share money and dividends of the borrowing members
- 4 Direct payment to agriculturists through order cheques was allowed to procure electric motor of their own choice
- 5 Dealers were required to deliver pumpsets and diesel engine to agriculturists only at the offices of the Bank and in the presence of the branch manager, to ensure delivery and authentic quality of the machines Besides this, the dealers of the pumpsets and engines were bound to provide three services of the delivered machines free of cost
- 6 To provide sufficient amount of loans for minor irrigation works the formula for valuation of land was revised, the loan amount was raised to 800 times of land revenue of Bhumidari land instead of 533 times, and to 600 times of

land revenue of Shirdhari land instead of 250 times. For the hill districts, the revised rates were 01,500 times for irrigated lands and 750 times for non-irrigated lands.

- 7 To avoid unnecessary expenses of the farmers, they were exempted from the condition of producing non-encumbrance certificates at the time of borrowing loans. Instead, the legal advisors of the Bank branches were required to procure such certificates from the Tehsil.
- 8 All the borrowers were allowed to deposit 5 percent of their share money at the time of repayment of the first instalment of their loans and 0.5 percent rebate was allowed to them on the repayment installment of their loans within a month of the due date.
- 9 Dealers and manufactures were required to deposit certain amounts as security in the Bank's branches, for obviating malpractices and safeguarding the interests of the borrowers.

The Bank also provided some of the following additional facilities to agriculturists during the year 1976-77 so as to cover all possible requirements of agriculturists in the State and provide means for agricultural development.

- 1 For utilization of ground water resources, the cultivators were allowed loans for installation of pumpsets only.
- 2 Loans were allowed to every borrower for an additional boring on his separate plot of agricultural land.
- 3 Loans were allowed even for boring purposes to provide irrigation facilities to small farmers.
- 4 For the first time, the Bank agreed to advance loans to Uttar Pradesh State Electricity Board, under an Agricultural

Refinance and Development Corporation Scheme, to help the Board tide over the financial problem in meeting the cost of electrification of tubewells.

5. Prices of pumpsets and diesel engines were reduced from Rs.500/- to 1,000/- on the recommendation of sub-committee appointed by the Government of Uttar Pradesh.
6. Proposals for amendment to the by-laws, were sent to the State Government to enable the Bank to advance loans to borrowers on Government guarantee and without any mortgage of agricultural lands.

Besides, the following new special scheme were submitted by the Bank to the A.R.D.C. for acceptance and refinancing in 1976-77 to implement in the State.

- 1. On Farm Development Scheme:** These scheme were meant for the construction of water drains for carrying irrigation water from the ground water source to low lying agricultural fields.
- 2. Soil Conservation Scheme:** For protection of agricultural land from erosion, the scheme of soil conservation was initiated by the Bank with the financial help of A.R.D.C.
- 3. Scheme of Electrification of Tube-wells and Pumpsets:** To provide loans to Uttar Pradesh State Electricity Board to meet the cost erection of electric lines in the agricultural fields for the clarification of tube-wells and pumpsets, these schemes were implemented by the Bank with the help of Agricultural Refinance and Development Corporation. Under

these schemes the Bank advanced loans to Uttar Pradesh State Electricity Board

4. Horticulture Scheme: The Bank with the help of refinancing facility of A R D C introduced horticulture scheme for the development of orchards in plains as well as hill areas of the State

Along with these developments, through special schemes, during the year 1976-77, the Bank also did a commendable job by disbursing higher amount of loan vis-a-vis other State Cooperative Land Development Banks, during the same period. For this achievement of disbursing loans to the tune of Rs 3,934.06 lakhs, the Bank was awarded the first National Shield by the then Prime Minister of India, at a function held on the occasion of the "Half Century of Land Development Banking in India" in Delhi on 16.08.1977.

On the other hand, the Bank also received a set-back on account of failure of its branches out of 215 to recover 75 percent of the loans disbursed by them. The result of this failure was the imposition of restrictions for further loading through these branches, under the Regulation of Advances of Reserve Bank of India.

Factors largely responsible for the low percentage of recovery were identified as the Parliamentary elections in March 1977 and the Assembly Elections in June 1977, and late winter rains which affected the rabi crops resulting in late harvesting.

To cope up with the problems of low percentage of recovery, the Bank then intensified its efforts through the field staff and

provided vehicles and transport facilities for visiting rural areas to persecute the defaulters for non-payment of loan installments. To create a better working spirit for recovery of loans, the Bank also introduced the scheme of providing “incentives” on their performance in the shape of cash prizes to its officers and staff. Under this scheme, the Bank distributed cash prizes of Rs.31,280 as “Rin Vasole Purushkar” (loan recovery prizes), to its different categories of officers and staff.

Besides this, the Bank also realised the importance of training the staff, to make them efficient. It established its own training centre called Uttar Pradesh State Cooperative Land Development Bank's Training Center at Lucknow in the year 1976-77, under the guidance of the agricultural Refinance and Development Corporation. In addition, the Bank also had the facilities of training for its staff at State Cooperative Training Centre, Mousem Bagh, Lucknow and Baikunt Nath Mehta national Institute of Cooperative Management, Pune.

The Bank, which was primarily concerned with financing of the development of irrigation, contributed greatly to the “Green Revolution” in the State. It diversified its efforts by paying attention to other allied sector agricultural development and played a signification role in bringing about a “White Revolution” in the State. The Bank introduced Dairy Development Schemes in 16 districts of the State during the year 1978-79, with the help of refinance facility provided by the A.R.D.C.

1. **Fisheries Farms Development Schemes:** The Bank also agreed to finance agriculturists for the construction of

fishponds and the development of fish farming with the help of A.R.D.D.

2. **Cold Storage Construction Schemes:** For the preservation of potato and other perishable agricultural products, the Bank launched a scheme for the construction of cold storages in the State.
3. **Sugar Godown Scheme:** To provide storage facilities for sugar stocks the Bank submitted a scheme for the construction of sugar godowns with the help of A.R.D.C.
4. **Dunlop Cart Scheme:** The Bank also drew up schemes to advance loans to agriculturists for the purpose of Dunlop carts, which form one of the best and the cheapest means of transportation as well as an additional source of income for agriculturists particularly small farmers and peasants in the rural areas.

Chapter - IV

*Organisational Structure & Management
of Uttar Pradesh State Co-operative
Village Development Bank Ltd.*

CHAPTER – IV

ORGANISATIONAL STRUCTURE AND MANAGEMENT OF UTTAR PRADESH STATE CO-OPERATIVE VILLAGE DEVELOPMENT BANK LTD.

In the previous chapter, an attempt was made to present comprehensive explanatory notes as regard the Land Development Banking in U.P. This chapter highlighted some of the significant aspects regarding U.P. Land Development Banks such as credit finance to rural sector, types of agricultural credit, need for long-term credit, credit structure, land bank capital structure and trends in loans recoveries. In the present chapter, a detailed discussion have been presented with regard to organisational structure and management of U.P. State Cooperative Village Development Bank Ltd.

Uttar Pradesh State Cooperative Village Development Bank Ltd.

Flow of credit essentially hinges upon the sound banking structure. In other words, the provision of credit for agriculture, and later the recovery of it needs the establishment of suitable banking structure with sound credit policy. An efficient management is therefore, the prime need for credit management. The present Chapter is devoted to the discussion of the

organisation and management of the State Cooperative Village Development Bank and critical analysis whether the prevalent organisation and management is conducive to efficiently meet the credit requirement of the rural sector and to effectively secure the repayment of loans.

The co-operative credit structure for the short-term and medium-term credit has a three-tier system with a federal character all over the country. At the base, there are primary co-operative societies which directly deal with the members, in the middle, there are central banks at the district level to which primaries are affiliated and at the top are the State Co-operative Banks which look after the affairs of the central co-operative banking institutions and function not only as the lender of the last resort but as the guardian of these institutions as well. Unlike the short-term credit structure, long-term credit structure is both of federal type and or unitary type. Federal type is one which operates through primary land development banks. The primary land development banks operates at district, tehsil, taluka or block levels where they directly deal with farmers. These primaries have federated into the State Land Development Banks at the State level. The State Land development Banks take care of them both in terms of finance and organisation.

Unitary type structure is one wherein the State Land Development Bank deals with the farmers directly through its branches at district, taluka, tehsil or block level. The main difference between a primary land development bank and a central land development bank is that the former is an independent corporate body while the latter is only an administrative unit

operating under the control of the head office of a State level institution. This means that the primary bank is the institution which directly collects the mortgages, lends and recover loans in its limited area, while in the unitary system it is the State Land Development Bank which has to deal with a large number of ultimate borrowers. Both are ultimately governed by an apex organisation.

Germany, which is considered as the birth place of land mortgage banking, has adopted the federal structure. The same structure has been followed by Denmark, Sweden, Norway and Switzerland. The unitary type has been adopted by France and Japan where the banks operate through their branches and agencies.

In India, the structure of Land Development Bank is one of the following four categories:-

1. The usual type with the central land development bank at the top and the primary land development bank at the base.
2. The central land development bank advancing loans directly to the farmers operating through branches.
3. The central land development bank operating through branches as well as primary land development banks.
4. The central land development bank operating through separate departments of central co-operative bank of the state.

There is, thus, no uniformity in India about the structure of land development bank.

When the country became independent in 1947, there were five central land development banks with 284

primaries/branches. On the recommendation of the All India Rural Credit Survey Committee, by 1960, almost all the States had a State Land Development Bank. At present there are 19 State Land Development Banks which operate through 2930 primaries/branches mostly located at the taluka/tehsil level. The federal system prevails in 10 states viz., Andhra Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Assam, Haryana, Karnataka, Kerala and Madhya Pradesh. In five states viz., Bihar, Gujarat, Jammu & Kashmir, Maharashtra, and Uttar Pradesh and two union territories of Pondicheri and Tripura, the structure is of the unitary type. In two states, viz., Himachal Pradesh and West Bengal, there is mixed structure having both primary land development banks as branches of State Land Development Bank. In Pondicheri and Tripura the Bank has no branches and provides loans directly to the farmers. In the State of Nagaland and the Union Territories of Goa and Delhi, there is no separate land development bank. The State Co-operative Bank also functions as long-term credit agency through a separate land development banking section/department. The present set up of land development banking in various state of the Union of India is shown in Table 4.1

Table 4.1

**STRUCTURAL SET-UP OF THE LAND DEVELOPMENT
BANKS AS ON 31 MARCH 2002**

S.No	Name of the State/Union Territories	Year of Estab .	Structure	Head Office	CLDB Branch	Primary Banks	PLDB Branches/CLDB Sub-Branches	Total	Regional Offices	Divisional Offices	District Offices	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Andhra Pradesh	1962	F	-	-	22	512	534	22	3	-	25
2	Assam	1955	F	-	12	21	-	33	3	-	-	3
3	Bihar	1957	U	-	187	-	-	187	10	-	42	52
4	Gujrat	1961	U	-	181	-	-	181	-	-	17	17
5	Haryana	1966	F	-	-	78	-	78	4	-	16	20
6	Himachal Pradesh	1961	M	-	17	1	5	23	-	-	-	-
7	Jammu & Kashmir	1962	U	-	35	-	-	35	2	-	7	9
8	Karnataka	1929	F	-	-	177	-	177	-	-	19	19
9	Kerela	1956	F	-	-	44	44	88	13	-	-	13
10	Madhay Pradesh	1961	F	-	-	45	150	195	-	9	-	9
11	Maharastra	1935	U	-	-	-	303	303	-	6	29	35
12	Manipur	NA	U	1	-	-	-	1	-	-	-	-
13	Orissa	1938	F	-	-	57	-	57	6	-	-	6
14	Pondicherry	1960	U	1	2	-	-	3	-	-	-	-
15	Punjab	1958	F	-	-	68	-	68	3	-	14	17
16	Rajasthan	1957	F	-	-	33	110	143	7	-	-	7
17	Tamil Nadu	1929	F	-	-	181	-	181	-	-	20	20
18	Tripura	1960	U	-	3	-	-	3	-	-	-	-
19	Uttar Pradesh	1960	U	1	334	-	-	335	18	-	72	90
20	West Bengal	1958	M	-	2	24	24	50	2	-	-	2
	SCBs											
21	Delhi	1953	CB	1	-	-	-	1	-	-	-	-
22	Goa	1963	CB	1	-	-	-	1	-	-	-	-
23	Nagaland	1971	CB	1	-	-	-	1	-	-	-	-
Total				6	773	751	1448	2930	85	18	226	344

Note: F = Federal, U= Unitary, M= Mix, CB= Cooperative Bank, NA= Not Available
Source. 1 Statistical Bulletin 2000-2001, NABARD, Mumbai 2 National Cooperative LDB Federation Ltd Mumbai

Structure Suitable for India

There had been significant changes in the working of LDBS after All¹ India Rural Credit Committee (1954), i.e., shifting the objective from the lending for redemption of old debts to the agricultural development. The banks are now required to provide loans for promotional role in the formation of suitable schemes of the agricultural development. The methods of working specially with regard to appraisal of loans proposals, have become more systematic than ever before. Further, the considerable increase in the financial assistance provided by these banks in the recent years, calls for greater vigilance and more effective supervision over the use of credit by the ultimate beneficiaries. Obviously, all these factors emphasise the need for availing a suitable structure in order to enable land development banks to mobilise resources to meet the growing demand for investment credit, conduct proper appraisal of loans proposals and effective supervision for the proper utilisation of loans.

This matter has been considered by various committees^{**} and the federal structure of land development banking was favoured for good reasons of ideology, i.e., the primary land development bank at the base is an institution organised and controlled by the borrowers themselves who have, thus, an opportunity and freedom to manage their own affairs. Their local knowledge and stake in the institution can ensure that they make a useful contribution in

1. In Maharashtra, SLDB has switched over from the federal to the Unitary structure with effect from May, 1973.

^{**} All India Rural Credit Survey Committee, 1954; The Committee on Takavi Loans and Co-operative Credit, 1962; and The All India Rural Credit Review Committee, 1969.

examining loan applications and supervising their utilisation and also be more effective in the matter of recovery.

However, these advantages are more academic than practical. Even in a federal structure, the SLDBs have always remained the central authority. It is they who raise funds by issue of debentures (the primaries are not authorised to issue debentures). It is they who sanction the loaning programme of the primaries and most of the procedure regarding the grant of loans as well as the recovery of loans, is laid down at the central level. Thus, the primary land development banks act merely as conduit pipes to pass applications up to central institution and pass loans down to the individual members. The hope that the primaries would develop local leadership has also remained a pious hope. In practice the primary land development banks management is subject to the local influence. If they refuse accommodation to influential persons because of their not being enough credit worthy, such persons may become annoyed and harm the bank. Further, the adoption of humanitarian approach in granting co-operative credit has always given a wrong impression that it is facile and easy. There is, thus every possibility of long-term co-operative finance being misused. The situation become worse, if the fellow members belonging to the same society do not report mis-utilisation of fund, because of fear of becoming unpopular in the village or locality.

In the unitary structure, the central organisation comes into being first and it then opens branches in a systematic and planned way in different areas of the state. Thus, in unitary system, there is a centralised control over branches which ensures discipline and

uniformity of policies. Experience has shown that this system is more conducive to management. The unitary structure, to begin with was recommended for the smaller States. In such States, the area being small, a federal structure was considered to be necessary. For instance, Maharashtra, Jammu & Kashmir, Pondicherry and Tripura initially started with a unitary structure. Some big states like Punjab, U.P, and Bihar unitary structure was favoured to begin with when the RBI advised these states to convert themselves into federal structure, none was willing to do so. The change in Punjab is still on paper as the Bye-Laws of the Bank retain all provisions which are essential element of unitary structure. In Gujrat, a committee set up under the chairmanship of Shri Udhayban Singh in June, 1962 by the Central Land Development Bank went into the question whether there was any need of converting its unitary structure into federal one. The committee came to the conclusion that in order to enlist among the members a large measure of effective responsibility, the structure be converted into a federal one. The Gujrat Government, however, did not agree with the view of this committee. Rather, the Maharashtra Government changed the unitary structure with effect from May 1, 1973. It made a rapid progress in the loan operation and occupied the second position in respect of the loans disbursement in 1982-83 against fifth position occupied prior of this change, i.e. in the year of 1971-72.

The committee on Co-operative Land Development Bank (1975) has examined the relative advantage and disadvantage of the unitary and the federal structure of co-operative land development bank and observed that "the main advantages of the

federal structure as pointed out by the various committees are responsiveness to local needs, capacity for gathering resources and facility of recovery of loans due to intimate contracts with the local non-official". The main advantages claimed for the unitary structure are facility of operation and unified control. We feel that the both the system have their own advantages and disadvantages as has been revealed by the studies in Andhra Pradesh and Gujrat which are having federal and unitary structure respectively from the very beginning. In both these states, the long term co-operative credit structure has made commendable progress by providing financial assistance to cultivators for investment in agriculture. At the same time, certain deficiencies have come to the surface in the structure in both the states such as inadequate control over the staff of primary banks and lack of initiative taken by the branch staff. The study in Gujrat has revealed that the advantages which have been pointed out by the earlier committee as inherent in the federal structure, such as local knowledge can be secured in the unitary structure as well by suitable organisational arrangements. For instance one of the major reason for the progress made by the Gujrat state Co-operative Land Development Bank is the constitution of branch committee for exercising control and also for dealing with aspects such as recovery of loans and implementation of special schemes at the field level. Similarly the problem of control over the field staff which arise in the federal structure can be solved by introducing suitable cadres under the control of the central land development bank resulting in unified control which is one of the major advantages claimed for unitary structure. After taking into account all these aspects we are of the

view that no change in the existing structure for land development banking is called for.¹

The committee to review the arrangements for Institutional Credit for Agriculture and Rural Development (1980) also reviewed the structure of Land Development Banks and endorsed the view that the existing structure of Land Development Banks need not to be disturbed merely for bringing about uniformity.

From the foregoing discussions, we consider that on balance an unitary structure of land development banks having branch management committee as recommended by the committee on co-operative land development banks offers a better alternative than a federal structure. This preference particularly strengthened by the consideration that the lending operations of these banks in future will not be quantitatively of larger dimension but also will be as we shall show, qualitatively more complex, if the technical and feasibility and economic viability of the project financed and the proper use of loans to be ensured. It is imperative that the co-operative units should manage by qualified trained and efficient staff. Moreover, the primaries under federal structure are unable to equip with such staff as their resources are limited and would not sustained the losses for a long-period as an independent unit. Mr. Ram Krishnayya, Former Deputy Governor of Reserve Bank of India was of the opinion that the bank should resort to a scheme of corporate planning to support adequately to PLDBs and make them viable in a period of next three years. If viability of PLDBs could not be ensured, he suggested that ultimately the bank should think

1. Reserve Bank of India – A Report of the Committee on Co-operative Land Development Bank, Bombay, 1975, p. 43.

of opening their branches or make alternative arrangement to meet credit need of farmers in the area.²

Thus, the unitary structure should be a suitable agency to the Government for transformation of the benefits of the welfare schemes to the actual beneficiaries, i.e., people of weaker section of the society who are mostly illiterate and unorganised.

Organisational Structure in Uttar Pradesh

In Uttar Pradesh, the U.P. State Co-operative Village Development Bank Ltd. (known as Uttar Pradesh Sahkari Gramin Vikas Bank Ltd. since June 9, 1994), like many other states has unitary structure since its inception and also has branch management committee for each branch to enlist the support of local non-official members. The bank is at apex level in the state and it has eighteen (18) Regional Offices which are as follows —

1. **AGRA -** Covering the whole are of Agra, Firozabad, Etah and Mainpuri districts.
2. **ALIGARH -** Covering the whole area of Aligarh, Hathras, and Mathura districts.
3. **ALLAHABAD -** Covering the whole area of Jasra, Fatehpur, Allahabad, and Pratapgarh districts.
4. **BAREILLY -** Covering the whole area of Bareilly, Badaun and Shajahanpur districts.

2. Inaugural speech on the occasion of XXVI Board Meeting and Annual General Meeting of National Co-operative Land Development Bank Federation on April 22, 1982.

5. **MORADABAD-** Covering the whole area of Mordabad, Amroha, Rampur & Bijnor districts. It has 24 branches.
6. **KANPUR-** Covering the whole area of Kanpur city, Bhognipur, Etawah, Farukhabad, Auraiya and Kannauj districts. It has 20 branches.
7. **FAIZABAD-** Covering the area of Faizabad, Barabanki and Sultanpur districts. It has 16 branches.
8. **DEVIPATAN-** It covers the whole area of Balrampur, Gonda and Bahraich districts. It has 13 branches.
9. **GORAKHPUR-** It covers the whole area of Gorakhpur, Maharajganj, Deoria, Pandrauna, and Basti, Naugarh and Khalilabad districts. It has 19 branches.
10. **AZAMGARH-** It covers the whole area of Azamgarh, Mau and Ballia districts. It has 14 branches.
11. **MEERUT -** It covers the whole area of Meerut, Bagpat, Ghaziabad and Bulandshahar districts. It has 20 branches.
12. **SAHARANPUR-** It covers the whole area of Saharanpur & Muzaffar Nagar districts. It has 13 branches.
13. **LUCKNOW -** It covers the whole area of Lucknow, Raibareilly, Hardoi and Unnao districts. It has total 22 branches.
14. **JHANSI -** Covering the whole area of Jhansi, Lalitpur, Jalon, Bandal and Hamirpur districts of the region. It has 20 branches.

- 15. LAKHIMPUR-** This regional office is having 23 branches in 3 districts namely Lakhimpur, Sitapur and Pilibhit covering the whole area of the districts
- 16. VARANASI -** Varanasi regional office is having 19 branches in 7 districts of the region namely Varanasi, Chakia, Ghazipur, Jaunpur, Lalganj, Sonebhadhra and Gyanpur It covers the whole area of the region
- 17. KUMAON -** This regional office is having 8 branches covering the whole area of (1) Haldwani (2) Kashipur (3) Rudrapur (4) Bazpur (5) Khatima (6) Almora (7) Ranikhet and (8) Pitharogarh of the Kumaon region
- 18. GARHWAL -** Garhwal regional office is having 9 branches covering the whole area of (1) Pauri (2) Kotdwar (3) Sai Nagar (4) Tehri (5) Dehradun (6) Chakrata (7) Doiwala (8) Chamoli and (9) Uttari Kashi
- DISTT. HARIDWAR-** After the division of Uttar Pradesh in the state of Uttaranchal a district office at Haridwar was open having 3 branches It covers the whole area of haridwar Laksar and Roorkee

Management of the Bank

The Uttar Pradesh State Cooperative Village Development Bank Ltd functions on the basis of the policies and procedures

adopted in consultation and with mutual consent of the Uttar Pradesh Government, Uttar Pradesh Cooperative Department and the Board of Directors of the Bank. The ultimate power to administer and manage the business affairs of the Bank vest in the following:

1. General Body
2. Board of Directors
3. Executive Committee
4. Chairman / Vice Chairman
5. Secretary / Managing Directors and
6. Branch Management Committee

The chart ... shows the respective position of the above organisational bodies of the Bank

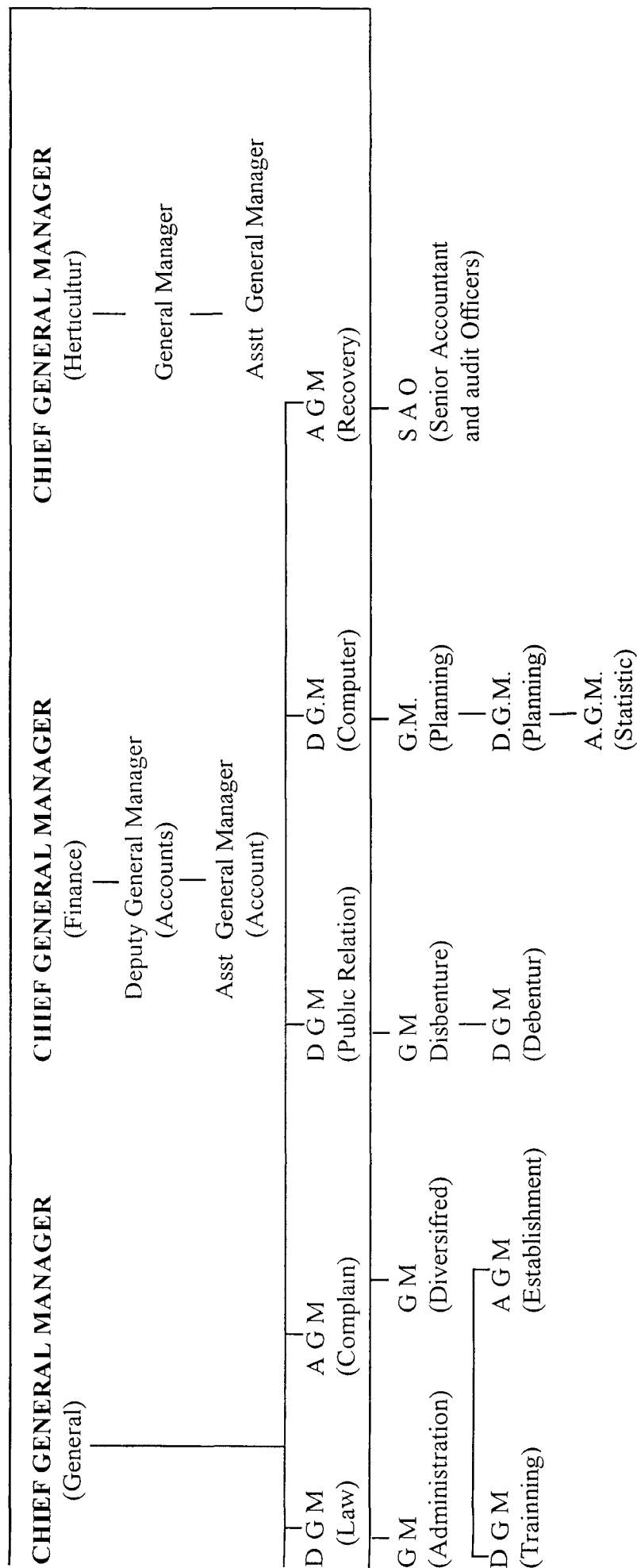
A. General Body

The ultimate authority, in all matters relating to the functioning and administration of the Bank, is vested with the General Body. The General Body of the Bank consists of the following-³

- (i) Nominees of the State Government.
- (ii) Registrar or his Nominee.
- (iii) Representative from Various concerned departments.

³. Bye Law's No. 1 of the Uttar Pradesh Central Co-operative Land Development Bank.

CHART - 4.1
ORGANIZATION CHART OF U. P. STATE COOPERATIVE
VILLAGE DEVELOPMENT LTD.
GENERAL BODY
BOARD OF DIRECTORS
EXECUTIVE COMMITTEE
CHAIRMAN/ VICE-CHAIRMAN
MANAGING DIRECTOR



Source - By the Courtsey of publicity Officer Uttar Pradesh Sahkar Gram Bank Ltd , Lucknow

Duties and Responsibilities of the General Body

The General Body has the following duties and responsibilities:⁴

- (i) Election of the members of the Board in accordance with the rules of election to be framed by the Registrar
- (ii) Consideration of the Annual Report, the audited statement of receipts and disbursement, balance sheet and profit and loss accounts.
- (iii) Disposal of profit.
- (iv) Fixation of the maximum borrowing limit of the State Bank constituent with these bye-laws subject to the approval of the Registrar.
- (v) Amendment of Bye-laws.
- (vi) Removal of the elected members of the board.
- (vii) Transaction of any business with the permission of the Chairman of the general meeting.

The General Body of the bank is required to meet from time to time but at least once a year to transact its business. A meeting of the General Body is convened by the Board of Directors. A general meeting can also be convened if requisition for such a meeting signed by not less than 1/4th of the total members is received by the Board. If on receipt of the requisition, the board fails to convene the general meeting within 3 months, the signatories to the requisition may refer the matter to the Registrar,

4. Bye Law's No. 5 of the Uttar Pradesh Central Co-operative Land Development Bank.

who shall have the powers to summon the general meeting of the bank.

During discussion with the officials of the bank as well as members of the General Body, it has been revealed that the functioning of the General Body is almost a ritual rather than being an effective check over the functioning of either the Board of Directors or the Managing Director. The meeting of the General Body were regularly held every year.

Notwithstanding any thing contained in section 31, it shall be the duty of Secretary/Managing Director, and in the absence of Secretary the Chairman of the committee of the management to call the Annual General Meeting in accordance with the above provisions, failing which the Registrar, or any person duly authorised by him in this behalf, may convene the Annual General Meeting.

Form above, it is clear that the involvement of the members in the above activities, can ensure the effective function of co-operative democracy. In fact, intensive participation of members can mobilise popular opinions which can be accepted as a policy of the bank for the welfare of the members. This can take the Bank in right direction and policies with vested interest can be busted. In other words, through effective participation of members in management, members can express needs and strategy can be formed to achieve the goal.

The Uttar Pradesh Co-operative Societies Act and Bye-Laws of the Bank have given a chance to the members who are ultimate owner of the Bank, to meet yearly in Annual General Meeting. The Annual General Meeting is the high watermark of the co-operative

year. This meeting provides a forum for a free discussion and criticism. Its purpose is to review the programme and business of the co-operatives for the year, and the plan for future activities. It gives members a chance to ask question and offer suggestions. It is the time, when the committee gives an account of its stewardship to the members, and when the members gain information about the working of the bank and express their views thereon. The members of a co-operative are not only its joint owners but are also users of its services. Hence, they come to the general meeting with a complex and varied purpose. The annual general meeting is, thus a source of guidance and information for the committee to know the member's wishes.

It is, therefore, suggested that the Managing Director/Administrator of the Bank should hold the Annual General Meeting as per provisions laid down in the Act and Bye-Laws of the Bank and also receives the referendum from the members of the Bank for the activities to be undertaken in the ensuing year

B. Board of Directors

The management of the Bank is vested in the Board of Directors, which shall exercise such powers and perform such duties as conferred or imposed by the Co-operative Societies Act, the Rules and Bye-Laws of the Bank. The Board of Directors is constituted in the following manner.⁵

- (i) A nominee of the State Co-operative Bank.

5. Bye Law's No. 18 of the Uttar Pradesh Central Co-operative Land Development Bank.

- (ii) Some officials nominated by the State Govt.
- (iii) Registrar or his nominee.
- (iv) Directors of Agriculture, Horticulture and Sericulture departments.

The tenure of the elected directors shall be three years and that of a nominated at the pleasure of the State Government.

Powers and Duties of Board of Directors

The main duty of the Board of Directors is to manage the business of the Bank in accordance with the provisions of Co-operative Societies Act, its rules and bye-laws. The Board of Directors performs the following powers and duties:

- (a) To elect the President and Vice-President of the Board
- (b) To appoint the Executive Committee.
- (c) To give directions to the Secretary for convening a meeting of the General Body and submit to the General Meeting, the annual report and the balance sheet.
- (d) To open branches at suitable places, and to fix up its jurisdiction and to appoint committees, if necessary from amongst the shareholders for supervising business and working of such branches.
- (e) To frame and subsequently amend rules, regulating the business and working of the bank consistent with the provision of these bye-laws and with the prior approval of the Registrar.
- (f) To delegate any of its powers and duties to the executive committee.

- (g) To purchase shares of co-operative financial institution or such other institution as are related to Agriculture Finance.
- (h) To take steps for the recovery of loans.
- (i) To fix the rates of travelling and daily allowances payable to various officials.

Convening Meeting and Quorum of the Board of Directors

The Managing Director of the Bank convenes the meetings of the Board of Directors on the advice of chairman. A prior notice of at least seven days is essential for holding the meeting. However, in case of urgency such meeting can be convened even on a short notice.

The quorum of meeting of the Board of Directors is formed with the presence of at least five members of the Board. All matters before a meeting are decided in the form of resolution passed by a majority of votes of the members present.

If any member of the Board is not satisfied with the decision by the majority of votes, he has the right to record his note of dissent in the proceeding of the meeting and the person in the chair is bound to include the same in the proceedings book

C. Executive Committee

The Executive Committee^{***} of the bank is of five members comprising the following:-

***. The Sub-Committee should also be referred as Executive Committee which is constituted by the Board of Directors and is also delegated all or some rights and duties to it.

- (i) Chairman;
- (ii) Vice-chairman
- (iii) Two elected Directors; and
- (iv) One Director among the Directors nominated by the State Government.

The term of executive committee shall be co-terminus with the term of Board of Directors.

The Executive Committee deals apart from the admission of ordinary member with the matter which are within the competence of the Board of Directors, subject to such general or special direction as the Board may from time to time, give. Thus, the role of Executive Committee in management of the Bank quite important as in fact, the various policy decisions are taken on the recommendation of this Body.

Chairman and Vice-Chairman

As early as possible but within fifteen days after the declaration of the results of election of the members of the Board of Directors, the Secretary/Managing Director, in consultation with the Election Office, convenes the first meeting of the new Board of Directors for the election of the Chairman, vice-Chairman and such other office-bearers of the bank as may be provided in its bye-laws. Such a meeting is presided over by the Election Officer. The Chairman and the Vice-Chairman are elected from amongst the members of the Board of Directors.

Powers And Duties Of The Chairman And The Vice-Chairman

The Chairman and the Vice-Chairman possess the following powers and duties in accordance with the provisions of the bye-laws of the Bank.

1. The Chairman supervises and controls and guides the affairs of the Bank and is responsible to the Board of Directors. In performing these responsibilities and duties, he exercises the powers delegated to him by the Board of Directors and vested in him according to the Act and bye-laws of the Bank.
2. The Chairman presides over the meeting of General Body, Board of Directors, Executive Committee and the sub-Committee.
3. In times of emergency, the Chairman exercises full powers of the Board of Directors and he himself decides about the state of emergency and keeps a watch over the affairs of the Bank, in accordance with the provisions of its bye-laws.
4. In the absence of the Chairman, the Vice-Chairman presides over the meetings of General Body, the Board of Directors, the Executive Committee and the Sub-Committees and exercises such powers and performs such duties as are delegated and assigned to him in writing by the Chairman in accordance with the provisions of the bye-laws of the Bank.

The tenure of the Chairman and the Vice-Chairman is coextensive with that of Board of Directors, provided that the Chairman shall continue to hold office till his successor is elected.

The Chairman and Vice-Chairman can be removed by the Board of Directors from his post by passing a no confidence

motion against him, in accordance with the provisions of the bye-laws of the Bank.

Managing Directors / Secretary

The Managing Directors deals with and supervises the day to day affairs of the Bank. He is its Chief Executive Officer.

Earlier, this post was designated as “Chief Manager”, and after the new bye-laws of the Bank came into force on 28.10.1969, this post was re-designated as “Secretary”; but once again the designation of this post was changed from “Secretary” to “Managing Directors” on 19.4.1976 by the State Government of Uttar Pradesh, in accordance with its general policy for all the apex cooperative institutions in the State.¹

Power And Duties Of Managing Directors

1. To exercise general control over the administration of the Bank.
2. To convene the meeting of the General Body and the Executive Committee.
3. To accept the funds and to guarantee on behalf of the Bank, and to make arrangements for the safe custody and protection of the cash balance, and other assets of the Bank.
4. To supervise and control the day to day affairs of the branches of the Bank.

1. As a general policy the State Govt. of Uttar Pradesh replaced the post of “Secretary” by the post of “Managing Directors” in all the Apex Cooperative Institutions in the Sate.

5. To sign all the deposit receipts and to supervise the maintenance of the accounts of the branches of Bank.
6. To sign all the registered and mortgage deeds.
7. To notify the floatation of saving certificate and Government and other guarantees and to sign and verify the cheques and other documents on behalf of the branches of the Bank.
8. To appoint the staff on an adhoc basis for a period of three months, in accordance with the provisions of the budget of the branches of the Bank.
9. To assign responsibilities and duties to the staff of the Bank's branches.
10. To take action on behalf of a branch or against a branch while dealing with the legal or disputed matters claims of any nature.
11. To give sanctions for financial project the schemes submitted by Bank's branches upto a certain limit.
12. To delegate in full or in part his powers and authorities to any employee or employees of the Bank's branches

Branch Managing Committee

The Bank operates through its branches which are mainly situated at Tehsil Head Quarters. The main functions of the branches are collection of loan applications, making scrutiny thereof and sanction, disbursement and recovery of loans. For this purpose, a branch managing committee is constituted for each branch by the Board of Directors. The Board frames rules for the election of members of the Branch Committee.

The Committee on Co-operative Land Development Banks, 1975 has specifically recommended to the LDBs whose structure is based on unitary pattern that the constitution of branch committee should have representative from various tehsil/block and of different categories of cultivators, especially small and marginal farmers, including those belonging to scheduled castes and tribes, in order to enlist the support of local non-officials in scheme formulation and implementation, mobilizing resources and recovery of loans.⁷

The members of Branch Managing Committee are nominated from among the present members of the Branch concerned by the Board of Directors or Executive Committee if authorised by the Board of Directors.

The term of Branch Managing Committee is for 3 year or till the next nomination are made. The Board of Directors of the Bank delegated the following of its powers to the Branch Managing Committee:-

- (i) To accord the membership to the ordinary members.
- (ii) To accord the membership to the nominal members.
- (iii) To sanction loan under the normal lending programme as well as under the special lending programme,
- (iv) To change the purpose of sanctioned loan, in case the member has requested for the change,
- (v) To consider and take decisions on those loan applications pending removal of objections or where

7. Reserve Bank of India – Report of the Committee on Co-operative Land Development Banks, Bombay 1975, p. 302

the objections have not been removed even after the sanction of loan, and

- (vi) To make suggestions for making the loan procedure attractive and simple.

It is also mentioned here that the powers of formulation and implementation of the scheme, mobilisation of resources and recovery of the loan have not been delegated to the Branch Management Committee as emphasised by the Committee of Land development bnaks. At present, it will not be hyperbole, if one says that the Branch Managing Committees are virtually defunct bodies. The Branch Managing Committee is to put its formal seal on the loan already sanctioned by the Branch Manager.

Thus, in order to make Branch Managing Committee effective and enlist the support of the local non-official, it is suggested that the powers regarding formulation and implementation of schemes mobilisation of resources and recovery of loans should be entrusted to the Branch Managing Committee.

Organisational and Administrative Set Up of the Bank.

Uttar Pradesh State Cooperative Village Development Bank Ltd. has unitary pattern and is an apex organisation working under the “Uttar Pradesh Cooperative Village Development Act 1964” It was established on 12th March 1959. Although the bank became operational with 30 branches in early sixties, at present, the bank is operating through 335 branches out of which 262 are at Tehsil / Taluka level and the rest are working at the level of development blocks / Nayaya Panchayat. The bank has 18 Regional offices headed by a Regional Manager to supervisor and monitor the work

of its branches. The organisational setup of the bank is presented in the chart... The location of the Regional offices and District offices in each Regional Offices has also been shown in Chart.

(A) Head Office Of The Bank:-

The Head office of the Uttar Pradesh State Cooperative Village Development Bank Ltd. is situated in its own building at 10 Male Avenue, Lucknow. The Chief functions of the Head office are the appointment of the staff for its different offices, the approval of projects and schemes of the branches, the management of funds for loaning through the branches, guidance to the bank's branches and regional and district offices of the Bank, and control and supervision over all the activities of the Bank its branches and offices.

All the above functions are under the control and administration of the Managing Director at the Head office. To assist and share the duties and responsibilities of the Managing Director and to deal with matters of decision making and consultation with top management there are there chief General Managers at the Head office.

1. Chief General Manager (General)

He looks after the general functioning of the bank. For the assistance of the C.G.M., there are three Deputy General Manager (DGM) and two Assistant General Managers (AGM) for different departments.

**CHART SHOWING LOCATION OF VARIOUS REGIONAL AND DISTRICT
OFFICES OF THE U.P. STATE COOPERATIVE VILLEGE DEVELOPMENT BANK LTD.
(APEX LEVEL)
REGIONAL OFFICES**

(1) AGRA i. AGRA ii FIROZABAD iii ETAAH iv MAINPURI	(2) ALIGARH i. ALIGARH ii HATHRAS iii MATHURA	(3) ALLAHABAD i JASRI ii FATEHPUR iii ALLAHABAD iv PRATAPGARH	(4) BAREILLY i. BAREILLY ii BADAUN iii. SHAJAHANPUR	(5) MORADABAD i MORADABAD ii AMROHA iii RAMPUR iv. BIJNAUR	(6) KANPUR i KANPUR CITY ii BHOGNIPUR iii ETAWAH iv FARUKHABAD
(7) FAIZABAD i FAIZABAD ii BARABANKI iii SULTANPUR	(8) DEVIPATAN i BALRAMPUR ii GONDA iii BHINGA (SRW) iv BAHRAICH	(9) GORAKHPUR i GORAKHPUR ii MAHArajanj iii DEORIA iv PAPRAUNA v BASTI vi NAUGARH vii KHALILABAD	(10) AZABGARG i AZAMGARH ii MAU iii BALLIA	(11) MEERUT i MEERUT ii BAGPAT iii DADRI iv GHAZIABAD v BULANDSHAHAHAR	(12) SAHARANPUR i SAHARANPUR ii MUZAFFAR MARG
(13) LUCKNOW i LUCKNOW ii RAIBAREILLY iii HARDOI	(14) JHANSI i JHANSI ii LALITPUR iii JALON	(15) LAKHIMPUR i LAKHIMPUR ii SITAPUR iii PILIBHIT	(16) VARANSI i VARANASI ii CHAKIA iii GAZIPUR iv JAUNPUR v LALGANJ vi SONBHADRA vii GYANPUR	(17) KUMAON DISTT. HARIDWAR	(18) GARHWAL

(1) Chief General Manager (General)

(i) Deputy General Manager (Law):-

DGM (Law) deputed to look after the legal problems of the bank and is giving his legal opinion on disputed matters.

(ii) Assitant Manager (Complaint)

Who looks after the complaints against the bank and tries to redress them and take action if needed.

(iii) Deputy General Manager (Computer):-

Who looks after the comnputerisation of work in the bank and presiding his view for efficient work though the computers.

(iv) Deputy General Manager (Public Relation)

DGM Public relation looks after the relation between bank and out siders.

(v) Assistant General Manager (Recovery)

He looks after the recovery of the loans by different Regional Offices and distant branch offices of the bank and give them instructions for quick recovery of loans.

To assist and share the responsibilities and duties of the DGM and AGM of the bank there are Account officers and Accountant and peons who are working under them.

[2] Chief General Manager (Finance) :- He looks after the financial matters of the Bank and holds the responsibility and authority to arrange funds for loaning.

For the assistance of CGM (Finance) there is one deputy general Manager (Accounts) and one Assistant General Manager (Account)

[3] Chief General Manager (Horticulture):-

The CGM (Horticulture) looks after all the activities related to Horticulture. For his assistance there is one General Manager (Horticulture) and one Assistant General Manger (Horticulture).

Below the rank of the CGM there are four General Manager and one officer (subject matter specialist) of the same rank. Their respective duties and responsibilities are as follows:-

1. General Manager (Administration)

He looks after the administration of the Bank and holds the responsibilities and authority for recruitment of staff, its training, promotion, transfer and punishment etc.

For the assistance of GM administration there are one Deputy General Manager assigned with the responsibility for training the recruited staff and one Assistant General Manager for establishment purposes.

2. General Manager (Diversified):-

There is one General Manager to look after the diversified purpose of the Bank.

3. **General Manager (Debenture):-** is responsible for all activities related to the debentures of the bank, such as floatation of the debentures its approval from the concerned authority, creation of fund for repayment and payment of interests etc.

For the assistance of the G.M there is one Deputy General Manager (Debenture) who assists in the work of G.M.

4. **General Manager (Planning):-** He is the most important functionary of the organisation for planning the activities of the Bank success in future. He is assisted by a Deputy General Manager and one Assistant General Manager who assist the G.M. in matters related to planning.
5. **Senior Accounts and Audit Officer:** He looks after the accounting and auditing works of the Bank.

B. Supervisory Units

There has been a significant change in the working of the Land Development Bank and the scope of its activities since in its methods of production oriented lending there has been a radical change in its methods of working specially in regard to scrutiny and appraisal of loan applications. Considerable increase in the lendings for non-land based activities which are allied to agriculture under various development programmes such as IRDP etc., call for greater vigilance and more effective supervision over the end use of credit by the beneficiaries. It is required to prepare

suitable schemes for agricultural development and also provide supporting services for its implementation. Besides, it has to enlist co-operation from local leadership for recovery of loans and successful implementation of the scheme. Further, the Bank has to secure co-ordination from various agencies, institutions department of State Government at various levels.

The Committee on Land Development Bank, set up by RBI under the Chairmanship of Sri K. Madhadevan (1975) has suggested for strengthening the existing structures which are applicable to both the federal and unitary structure. They are: (a) setting up of Regional / Divisional Offices of the Central Land Development Bank with technical and other staff to provide the necessary support to its branches / primary banks in the matter of scheme formulation and implementation, and effective control on the staff at the field level; (b) introduction of suitable raining programmes for the staff in primary banks/branches; and (c) satisfactory arrangements for securing co-ordination between primary banks/branches on the one hand and different institutions and departments of the State Governement on the other.⁸

(c) **Regional Offices**

With the objective of efficient and effective management and coordinate between the Head Office and Branch offices eighteen (18) regional offices of the bank have been established at the head quarters of every region (Commissionary):- 1. Agra, 2. Aligarh, 3. Allahabad, 4. Bareilly, 5. Maradabad, 6. Rampur, 7. Faizabad, 8.

8. RBI: Report of the Committee on Cooperative Land Development Bank, Bombay, 1975, p.302

Devipatan, 9. Gorakhpur, 10. Azamgarh, 11. Meerut, 12. Saharanpur, 13. Lucknow, 14. Jhansi, 15. Lakhimpur, 16. Varanasi, 17. Kumaon, 18. Garhwal

Regional offices are totally administrative and supervisory points. The chief functions are control and supervision of the working of the Bank's branches and district offices in addition to the inspection auditing and guidance of scheme for financing. Every Regional offices consists of the following staff.***

1.	Regional Manager	One
2.	Senior Manager (Law)	One
3.	Internal auditor /Manager	One
4.	Accountant	One
5.	Assistant Accountant /Typist	One
6.	Peon	One
7.	Watchman / Sweeper	One

Duties of the Regional Manager

- (i) To inspect the branches;
- (ii) To ensure recovery of the Bank dues;
- (iii) To comply the inspection report of the NABARD;
- (iv) To ensure the removal of lapses/short comings pointed out in the inspection reports by the District Offices/Branches and to inform Head Office about the progress of the work in this respect;

*** Information provided by the Officers of U.P. Sahkari Gram Vikas Bank Ltd., Lucknow

- (v) To call for meeting of District Managers/Branch Managers and explain them about the new programmes to be undertaken by the Bank and to ensure their follow up;
- (vi) To enquire against the complaints and submit the reports to the Head Office;
- (vii) To represent the Bank at Regional Divisional level meetings.
- (viii) To control the expenditure of the branches;
- (ix) To try to disburse loans upto the target fixed every year; and
- (x) To publish necessary notices and proforma, etc. for branches, on the advice of the Head office.

Power of the Regional Manager

Some powers have been delegated to the Regional Manager which are summarised below:

- (i) To sanction the casual leave of the District Managers and other staff of the Regional Office;
- (ii) To sanction the earned leave and sick leave of the class IV employees of the Region;
- (iii) To accord approval to recurring and non-recurring expenditure of Regional Offices and Branch Offices; and
- (iv) In addition to the above he also exercises the powers and performs the duties which are assigned to him from time to time

D. District Offices

Before the establishment of district offices, all type of supervision and control of the branch were carried out by the Head Office and the Regional Office of the Bank. The need for an

organisation at the district level was felt because of the increasing trends of disbursement of loans and its recovery. Moreover, the Reserve Bank of India laid more stress on the loan disbursement under schematic projects prepared on the basis of local needs.

The District Offices were established with a view to be nearer to the operational units for immediate guidance and supervision of their activities. They are entrusted with the formulation of bankable schemes, their implementation and monitoring, etc., as they are familiar with the local conditions. They also establish liaison with the district authorities for effective implementation of the lending programme and recovery of the LDB. Every district office consists of the following staff:⁹

1. One – District Manager
2. One – Accountant
3. One Junior Assistant/Typist
4. One – Peon/Watchman

Function of the District Office

The functions to be performed by the District offices are summarised as under:

- (i) To sanction the casual leave of the District Managers and other staff of the Regional Office;
- (ii) To analyse the monthly progress report of the branches under its jurisdiction; and submit it to the Head Office;

9. By the courtesy of the Officials of the U.P. Sahkari Gram Vikas Bank Ltd., Lucknow.

- (iii) To investigate into the complaints of the branches and submit the reports to the District Authorities and to Head Office;
- (iv) To fix the target of recovery of branches and review the performance of the staff concerned;
- (v) To formulate, implement and monitor the bankable schemes; and
- (vi) To make arrangement for providing funds to each branch for the purpose of loan disbursement.

Power of the District Manager

To implement and execute the various programmes of the bank, U.P. State Land Development Bank has delegated certain powers to the district manager. Some of the important administrative and financial powers of the district manager are as under.

(a) Administrative Powers:

- (i) To sanction T.A. bills, casual leave of branch manager and other staff of the district office;
- (ii) To issue warnings to the office staff as well as staff of the branches in case of irregularities.

(b) Financial Powers:

- (i) To verify all purchases of tractors, financed in the district;
- (ii) To change the purpose of loans and/or increase or decrease the amount of loans;

- (iii) To take decision on disputed loan applications;
- (iv) To terminate the membership of any of its members;
- (v) To avail of the overdraft facilities from the District Central Co-operative Bank or any other authorised Commercial Bank.

Branches Of The Bank

Because of the “Unitary pattern” of land development banking in the State, the Uttar Pradesh State Cooperative Village Development Bank Ltd. has established 335 branches, almost at the head-quarters of the every Tehsil of the States.

The basic functions of these branches in their respective areas are to receive loan applications, scrutinise and then approve them and make the payment of loans and carry out recovery of these loans with interest in due time.

To perform all these functions, a Branch Management Committee has been organised at each and every branch of the Bank in the State.

Organisation of the Branch Management Committee

A Branch Management Committee consists of the following:

1. One member who has been elected as delegate of the branch to the General Body of the Bank.
2. Four nominated member, including at least one from the scheduled castes or scheduled tribes and one from weaker section and two general members.
3. Official members including the District Planning Officer (Now called District Development Office); Assistant

Registrar, Cooperative Societies; Assistant Engineer, Minor Irrigation; and District Agriculture office.

4. Official members nominated from Assistant Development officer cooperative.
5. The Branch Manager, who is an ex-officio member of the committee.

The elected delegate of the branch is the Chairman of Branch Management committee and he presides over its meetings.

For the nomination of four members of the Management Committee its Chairman recommends their names to Head Office after ascertaining from the Branch Manager that they are not defaulters of the Bank. Either the Board of Directors of the Bank or its Executive Committee or Managing Director or Administrator; whoever is authorised by the Board, confirms the nominations of the members of the Branch Management Committee. The nomination of at least one scheduled caste or scheduled tribe member in every branch management committee is necessary.

The official members of the Branch Management Committee are generally represented by their nominees such as Block Development Officer (Cooperatives), Assistant Development Officer (Minor Irrigation), and Assistant Development Officer (Agriculture).

The Branch Manager acts as the Secretary of the Branch Management Committee and records all the proceedings of the meetings. Earlier, the Manager had no voting rights, but recently branch managers have got the right to cast their votes in the meetings of their respective Management Committee as an ex-

officio member. But in an election of the office bearers and the delegates, the Branch Manager cannot participate.

The tenure of a Branch Manager Committee is three years or till a new Committee is set up.

The quorum for the meeting of the Branch Management Committee is formed with the presence of at least two members and out of the two, one must be a non-official member.

The Branch Manager convenes the meetings of Management Committee twice a month. All matters placed before the meeting are decided in the form of resolutions passed by the majority of votes. In case of equally divided voting into two, the Chairman has a second or casting vote.

When a matter placed before the committee is related to any of the Committee, the member concerned cannot participate in the voting at the time of passing resolution.

Membership of the Management Committee can be terminated by the Board of directors of the Bank without assigning any reason and if any casual vacancy occurs the same is filled through nomination by the Board of Directors or the authority empowered by the Board to do so.

No person can be a member of Management Committee if he is disqualified under rule 453 of the Act.

Power and Duties of Branch Management Committee

The Branch Management Committee performs the following function:

1. Accepts the membership of ordinary and nominal members.
2. Approves loan applications upto a limit.

3. Can change the purpose of loans and can also increase or decrease the amount of loans.
4. Takes decision on approved by disputed loan applications.
5. Can terminate the membership of any of its members.
6. Approves an expenditure incurs for refreshment in meeting etc.

Staff at the Branch Office*

A branch of the Bank has following staff:-

- | | |
|---|-----|
| 1. Senior Branch Manager/Branch manager | One |
| 2. Manager (Law) (at district branch) | One |
| 3. Filed Officer | One |
| 4. Assistant Field Officer | One |
| 5. Accountant | One |
| 6. Asst. Accountant | |
| 7. Peon/watchman | One |

Power and Duties of the Branch Manager***

1. Proper verification of loan applications and ensuring the fulfillment of conditions laid down for sanctioning loans.
2. Disbursement of loan upto the target fixed and control over the proper utilization of disbursed loans.
3. Transmission of demand letters, pro-notes and mortgage papers to the Head Office in time.
4. Maximum recovery of loans and overdues.

* By the courtesy of AGM (Public Relation) U.P. Sahkari Gram Vikas Bank Ltd., Lucknow.

*** Siddique, M. Imran, Land Development Banking, Khanna Publishers, New Delhi, pp. 78-80

5. Taking timely action under rules 24, 25, 26, 27, 28, 39 and 42 for the recovery of loans.
6. Preparation of monthly trial balance and final annual accounts in time
7. Despatch of monthly progress reports and statements to the Head Office, regional and district offices in time.
8. Daily verification of cash book and signing it along with the Branch Accountant and the Assistant Accountant (Cashier).
9. Convening the meetings of the Branch Management Committee and recording the proceedings of these meetings.
10. Making arrangements for safe custody and protection of all record and dead stock of the branch.
11. Daily verification of Bank's balance and deposit of excess balance in bank, where its accounts are maintained.
12. Supervision and control over the branch staff and their working.
13. To keep the cash receipt books, cheque books, loan registers and important account records in joint safe custody with the Branch Accountant.
14. Proper and timely compliance of audit reports and verification of account books with the help of the Branch Accountant in accordance with the rules.
15. Issue of share certificates and release of mortgage lands in cases where full amount of loans have been repaid to the Bank.
16. Making payments of interests (dividends) on debentures and proper distribution of profit (surplus) in accordance with the rules.

- 17 Monthly verification of accounts with the banks, where the accounts of the Branch are maintained and despatch of the verification certificates to the Head Office
- 18 Sanction of recurring expenditure of the Branch, within the limits of the budget fixed by the Head Office
- 19 Proper issue of cash receipt on the repayment of loan amounts and regular remittance of the amount to the Head Office
- 20 Submission of the attested copies of mortgage deeds in the office of the sub-Registrar (Revenue) within the time limit and safe custody of the mortgage deeds register
- 21 Participation in the meetings convened by the District planning Officer (Now called District Development Officer) and Assistant Registrar Cooperative Societies
- 22 Performance of any other function assigned by the Head Office

On the basis of above discussion, a strong organisation with efficient and effective management is of crucial importance. As opposed to the commercial banks, the financial operations of the Land Development Bank in the field of agriculture development involve much greater risks. Earlier Uttar Pradesh Co-operative Village Development Bank utilised a major portion of its funds in providing loans for redemption of old debts, but due to the shift in the emphasis from redemption of old debts to productive and development loaning, the activities and financial operations of the Bank has shown a tremendous increase, besides expansion in its operational area. To control and supervise its activities, efforts should be made to engage well-trained staff at different levels and

adopt modern management techniques for analysing the relevance of policies and procedures and observe an increasing degree of cost consciousness.

Chapter - V

*Financial Structure of Uttar Pradesh State
Co-operative Village Development
Bank Ltd.*

CHAPTER – V

FINANCIAL STRUCTURE OF UTTAR PRADESH STATE COOPERATIVE VILLAGE DEVELOPMENT BANK LTD.

The discussion in the previous chapter enlightened that organisational structure of Uttar Pradesh State Cooperative Village Development Bank Ltd. is unitary in character, with branches that deal directly with the borrowing members. This bank looks after the affairs of its branches and functions not only as their guardian but also as the lender in the last resort. In this context, the present chapter analyses the sources of finance of the Uttar Pradesh State Cooperative Village Development Bank Ltd., which, in turn, provides funds to its branches for disbursement of long-term loans to farmers.

Financial Structure of U.P. State Cooperative Village Development Bank Ltd.

The Uttar Pradesh State Cooperative Village Development Bank Ltd. is not a “Bank” in the strict sense though it deals with money and is engaged in borrowing and lending operations. It is not involved in other normal banking activities. Credit operations form only a part, though an important one, of normal banking operations. Nevertheless the Uttar Pradesh State Cooperative Village Development Bank Ltd. is an important financial institution in the State’s rural credit sector for providing long-

term investment credit at reasonable rate of interest to a very large number of farmers for various development activities and projects.

Unlike other banking institutions, Uttar Pradesh State Cooperative Village Development Bank Ltd. does not raise funds through normal banking operations of raising deposits like saving accounts, current accounts, time deposits, etc. In 1972-73, it started raising deposits from public for a period to exceeding two years when the scheme of Rural Debentures was replaced by the said deposits. The Bank is dependent mainly on outside financial resources for its loaning operations.

The bank's source of finance mainly consist of the following sources.¹

I. Borrowed Capital

- 1) Ordinary Debentures
- 2) Rural Debentures
- 3) Special Development Debentures

II. Owned Fund

- 1) Share Capital
- 2) Reserve Fund

III. Fixed Deposits

IV. Interim Finance

V. Miscellaneous

- 1) Admission Fee
- 2) Other Fees

1. Based on information gathered from Annual Reports and officials of the Uttar Pradesh Shakari Gram Vikas Bank Ltd., 2001-2002, Lucknow.

- 3) Grants and subsidies
- 4) Marging of Interest

The aforesaid sources of finance are analysed below in respect of their scope, limits and importance in overall funds available with Uttar Pradesh State Cooperative Village Development bank Ltd.

Debentures

The main source of working capital for Uttar Pradesh State Cooperative Village Development bank Ltd. is the floatation of debentures. The salient features of the debenture issued by the U.P. State Cooperative Village Development Bank Ltd. are:

- (i) It is a certificate acknowledging the debt.
- (ii) It is issued under its seal.
- (iii) It carries interest rate ranging from 4.5 to 9 percent and is redeemable after periods ranging from seven to fifteen years.
- (iv) It is generally issued against the mortgage charge created on land when the bank advances long-term credit to the borrowers. Thus, a series of debentures is floated by the Bank, only after it has collected sufficient mortgage rights that become the effective tangible assets of the Bank.
- (v) It carries a general charge on the assets of the bank and is fully guaranteed by the State Government regarding the repayment of the principal and interest.

- (vi) It is treated as trustee securities under the Indian Trust Act and approved securities under the Reserve Bank of India Act, 1934.

From the above, it is revealed that the Bank is initially required to advance loan to the borrowers from its owned resources and to the extent they fall short of the requirements, it has to procure interim accommodation from co-operative or commercial banks. Thus, the bank should obtain the valid mortgage security for the amount of the proposed issue of debentures to be made to the NABARD, and the guarantee of repayment of principal amount and payment of interest should be secured from the State Government

The U.P. State Cooperative village Development Bank Ltd. floats the following types of debentures:

- (i) ordinary Debentures,
- (ii) Special Development Debentures, and
- (iii) Rural Debentures.

1. Ordinary Debentures

They are the most important source, as even today a large portion of the financial requirements of the Bank for lending purposes is met from this source. These debentures are secured by the first mortgage of land, the estimated value of which is not less than the amount of loans. From the interim finance availed by the Bank through overdraft, loans are initially provided to the farmers and mortgages are obtained. After a sizeable amount is collected through mortgage, the Bank sends a proposal to the Government with the request for floatation of a debenture issue for a specified

amount. The proposal also contains the terms and conditions under which the bank would like to float the series. On obtaining the approval of the Reserve Bank of India, the Government issues guarantee resolution ensuring payment of interest and repayment of the principal to the debenture holders. Because of this guarantee, the debentures are classed as trustee securities under the Indian Trust Act (1882) and also as approved securities under the Insurance Act (1938) and the Banking Companies Act (1949). The important agencies subscribing to these debentures are institutional investors like other State Cooperative Land Development Banks, commercial Banks, Cooperative Banks, the State Bank of India, the Life Insurance Corporation of India, the Reserve Bank of India and other financial institutions, Statutory Boards, Thrusts and provident Funds. The State and the Central Government have also been contributing to this fund liberally. Usually, the debenture programme for Uttar Pradesh State Cooperative Land Development Bank is decided by the Reserve Bank of India every year keeping in view the programme projected by the Bank and the resources available from the debentures issue to the various agencies mentioned above. The support to the debentures that would be made available by these agencies is also indicated. This ensures success of the series of debentures to the extent the programmes are approved by the Reserve Bank of India. Some of the connected issues like determining the programme, making available support to the aspects which do not require detailed analysis as they are directly concerned with the policy of the Reserves Bank of India. The rate of interest offered by the Bank on ordinary debentures is 7.3 per cent per annum for a period

of 10 years and 7.5 per cent for a period of 15 years. The borrowing programme of the Bank through ordinary debentures issue has shown a steady increase from year to year, as would be evident from the following.

For the first time, the Bank took a bold step to stand on its own feet when the scheme of the floatation of ordinary debentures was launched by the Bank during the financial year 1963-64 and the debentures amounting to Rs. 68.00 lakhs were sold. The bank continued with its policy to float ordinary debentures in the subsequent years and sold these debentures to the tune of Rs. 375.00 lakhs, Rs. 1,684.00 lakhs, Rs.864.42 lakhs, Rs.1,4300 lakhs and Rs. 405.00 lakhs during the financial year 1965-66, 1970-71, 1975-76, 1980-81, 1984-85 respectively. And on 30th June, 1988, the bank was indebted to the ordinary debenture-holders to the extent of Rs. 200.00 lakhs.

Table 5.1
Floataion of Ordinary Debentures by the Bank

Year	Amount (Rs. in Lakhs)
1963-64	68.00
1965-66	375.00
1970-71	1,684.00
1975-76	864.42
1980-81	1,430.00
1984-85	405.00
1987-88	200.00

NOTE: Thereafter debenture issue ceased.

Source: Compiled from the Various issues of the Annual report of Uttar Pradesh Cooperative village Development Bank Ltd

2. Rural Debentures

The encouragement of thrift and mobilization of rural saving are one of the foremost aims of the co-operative movement. There has been substantial increase in rural income on account of two factors: (1) rise in agricultural prices due to inflationary prevailing during the various plan period, and (2) increase in agricultural productivity due to adoption of modern techniques in the field of agriculture. This offered an opportunity to the co-operative to mobilize rural saving and build up their financial strength by increasing their internal resources. The need for the mobilization of savings from rural areas arises not only in the context of expanding rural credit, but from broader considerations, i.e., a development economy requires, as a condition of the growth, that saving of the community be increasingly promoted, institutionalized, and channelled for the purpose of development.

On the recommendations of the All India Rural Credit survey Committee, a new type of Land Development Bank Debentures, viz., rural debentures, mainly intended for rural areas, came into being. These debentures are issued for specific projects of development in which villages are keenly interested wither because the project are directly beneficial to them or they are beneficial to those whom they like most because of regional affinity or some other factors. If the purpose of debentures is to provide loans to the higher productivity through development of minor irrigation works, this may have more or less a direct appeal to the local cultivators. At the same time, the debentures related to some important much publicised major irrigation works

established in their State may have an appeal which is less direct, but not necessarily less strong. As against the debentures intended to draw saving from the money market are issued during the slack season when money is available in the market, these rural debentures are usually issued at the time of harvest and sale of crop produce when money is available with the cultivators. Moreover, regarding the choice of the period of repayment, these debentures are so designed as to suit the requirements of the rural investors.

The U.P. State Cooperative Village Development Bank Ltd. raises resources mainly through flotation of debentures which are mainly purchased by the institutional investors like Insurance Companies, Commercial and Co-operative Banks, Trusts and Charitable Institutions. The time of issue and conditions and terms of these debentures are not attractive to the large body of individuals who have small saving to invest and particularly to those who reside in rural areas.

The All India Rural Credit Survey Committee (1954) felt that there is good scope for land development banks to mobilize and collect rural saving. Hence, a special type of debentures called "Rural Debentures" were recommended by the committee, intended for rural areas. The main features of these debentures as envisaged by the committee were as under:

"These rural debentures should, as far as possible, be for specific projects of development in which the village is interested in different degrees, according as they are of direct benefit to him, or of benefit to those with whom he shares as fellowship of

interest because of their belonging to his district or region or State. Thus, if the purpose of the debentures is to provide loans to the cultivators in his own locality to prepare their lands for the highly productivity made possible by a minor irrigation work of the district, this may be of more or less direct appeal to the local cultivator, at the same time, a debenture similarly related to some important and much publicised major irrigation work established in his State may have an appeal for him which is less direct, but not necessarily less strong. Just as the debentures intended to draw savings from the money – market are issued during the slack season when money – market are issued during the slack season when money is available with the market, so should these rural debentures, as far as possible, be issued at the time of harvest and sale of crop when money is available with agricultural classes. So also, in regard to period of repayment, etc. these debentures should be so designed as to suit the requirements of the rural investor.”⁶

The above recommendation was considered by the Standing Advisory Committee on Agricultural Credit of Reserve Bank of India at its seventh meeting held in Bombay on 9th and 10 the October, 1957 and suggested that the Central Land Development Banks may float rural debentures as an integral part of the schemes for mobilizing rural savings. In pursuance of the

6 Reserve Bank of India: The General Report of the All India Rural Credit Survey Committee 1954, p. 489.

recommendations of the All India Rural Credit Survey Committee and Standing Advisory Committee on Agriculture Credit, the Reserve Bank of India formulated a scheme of rural debentures in November, 1957 and recommended it to the banks for implementation. The salient features of the scheme were:

1. Land Development Banks should grant loan for purposes for a period of 6 or 7 years against mortgage of land. On the strength of these mortgages they were to float a special series of rural debentures.
2. The flotation was to be timed so as to take place during the month immediately succeeding the harvest so that the money would be available with agriculturists from sale of their crops.
3. The exact time and the terms and conditions relating to the issue price, period of maturity and rate of interest were to be fixed in consultation with the Reserve Bank of India, the period debentures being as a rule, co-terminus with the period of mortgage and the rate of interest being fixed slightly than that on ordinary debentures.
4. The debentures were to be made available only to individuals (especially those in rural areas) as distinguished from institutional investors, such as banks, societies, trusts, etc. An exception was however, made subsequently in regard to subscription from village panchayats.
5. The Reserve Bank of India was to subscribe to the short fall in public subscription, subject to a maximum of two-thirds of an issue.

The progress made under this scheme was however, not very encouraging as the land development banks found it difficult to advance loans for 6 to 7 years, the demand at that time being mostly for 15 years or more. Consequently, in September, 1958, the Reserve Bank of India revised the scheme. The main features of revised scheme were as under:

1. The Central Land Development Bank might ordinary issue loans for period extending upto 15 years for which they might issue a series of rural debentures in two parts, one part for 7/15 share of total might be for 7 years and be made available to the public and other part (8/15) be for 15 years (i.e. 8 years) beyond the period fixed for the public and be offered for subscription to the Reserve Bank of India.
2. The series can be floated at any time of the year, but not be on gap for more that 4 months.
3. The rate of interest offered to the Reserve Bank was 1 Percent less than what was offered to individuals
4. The rural debentures should open for subscription only to individuals.

The scheme continued in the same form exception for the changes made in the rate of interest from time to time.

Various incentives were offered by the bank but even then the scheme of rural debentures could not become popular. The working group of Rural Debentures set up in 1970 by the RBI under the Chairmanship of R.K. Seshari observed the failure of the scheme as follows:

"It will be seen that the Reserve Bank of India has been consistently trying to popularise the issue of

*rural debentures over a period of more than a decade. The response, in spite of these efforts, has not so far been very good. Rural debentures have not proved to be attractive in the past, as the terms and conditions on which they are being issued, including in particular that rate of interest, have not been competitive. While the agricultural surpluses in several parts of the country have been substantial during the last four years, this prosperity has not been reflected to any extent in the mobilisation of resources through debentures, rural or otherwise."*⁷

To make rural debentures popular and tap the rural savings in 1970-71, the reserve Bank of India put on condition for making the banks eligible to the full supported programme. This condition insisted floatation of rural debentures to the extent of 5 percent of ordinary debentures programme of the banks in developed States and 2.5 percent of ordinary debentures programme of banks in weaker States.

The entire scheme in all its aspects was reviewed by the Agricultural Credit Board of the RBI at its meeting held in August 7, 1975 and made the scheme voluntary instead of mandatory. But in order to enable the banks to collect substantial amount by floatation of rural debentures for 10 years, the rate of interest at 10.24 percent thereon was kept in confirmity with the interest rates on other rural savings schemes. Under the revised scheme,

7. Reserve Bank of India: Report of the Committee on Co-operative Land Development Banks, Bomaby, 1975,.P.187.

the issue of debentures neither had guarantee from the State Government nor any contribution by the Reserve Bank of India

After declaration the issue of rural debentures voluntary instead of mandatory, the land development banks have not made any efforts in this sphere and become dependent on the outside resources but Agricultural Credit Board of RBI was of the opinion that there is still need for the land development banks to make efforts to mobilise rural savings in order to augment their resources. This is all the more necessary now than ever before in view of the fact that the banks are expected to involve to some extent, their own disposable resources in their lending.⁸ Moreover, if additional income generated in the rural sector is not mobilised it was apprehended that a large portion of this income in this sector would either be unproductively used or hoarded. This will on the hand increase the inflow of money in the public and deprive the economy of capital for productive purposes on the other. However, the total amount of savings available in rural areas is limited and number of persons in a position to save is relatively small. It is, therefore, essential that these saving should be to the maximum possible extent to be available for co-operative development. They can take the form of shares and deposits in co-operative organisations and rural debentures/deposits in land development banks. At present, the flow of such savings particularly to the land development banks is almost nil and consequently they have to depend to considerable extent on funds from outside through co-operative banking system, Government

8 Reserve Bank of India Circular No ACDLDB 692/C1-75/6 dated November 5, 1975

and Reserve Bank of India and other institution. This in turn has been restricting their lending operations. To some extent, it may be due to competitions of National Saving Movement which has active support of the State Government machinery.

However, almost all the expert committees, viz., All India Rural Credit Review Committee (1969), The Working Group on Rural Debentures (1971) as well as the Conference of State Ministers of Co-operation held in New Delhi, in January, 1973 were in favour of continuing the scheme. The Committee of Co-operative Land Development Banks (1975) has recommended the continuation of the scheme and made following suggestions to make the scheme of rural debentures successful:

- (i) The need for mobilizing rural savings can not be over emphasized especially in the context of the large resources needed by Co-operative Land Development Bank. The Central Land Development Bank should, therefore, make determined and earnest efforts to collect sizeable amounts by way of rural debentures instead of pleading for scrapping of the scheme.
- (ii) Instead of the present procedure for effecting reduction in the supported programme for ordinary debentures for failure to collect the required amount of rural debentures, the Reserve Bank may introduce an alternative scheme for offering certain incentives to the Bank to make necessary organisational arrangement efforts for the purpose. For instances, the Reserve Bank may allow an additional amount, by way of an incentive, towards share capital contribution in the case of Central Land Development

Banks whose performance in respect of collection of rural debentures of fixed deposits is found to be satisfactory.

- (iii) The Central Land Development Bank should introduces special schemes for rural debentures for certain specific areas where ARC refinanced scheme have implemented or are under implementation. Such schemes have a fair chance of success since the banks have already established or will be establishing close contracts. With a large number of individual cultivators in these areas. Cultivators may be encouraged to subscribe towards rural debentures alongwith the instalments towards repayment of the long loans borrowed by them. In addition, the amounts raised through a special scheme of rural debenture, if sizeable, could earmarked by the Central Land Development Bank for investment in agriculture by cultivators in the same area as this will give a sense of involvement to the investors in the development of the area and thus make the scheme of rural debentures popular.
- (iv) The Reserve Bank may consider revising the permissible rate of interest on rural debentures in the light of the recent increase in interest rates. Similarly, the interest to be allowed by Land Development Banks on fixed deposits may revised suitably by the Reserve Bank so as to enable the banks to offer attractive rates which compare favorably with those offered by the State Co-operative Banks Central Co-operative Banks, Central Co-operative

Banks and Commercial Banks, and are fact, higher than those offered by these institutions.

- (v) The Reserve Bank may reconsider its views in respect of the reference received from the National Co-operative Land Development Banks Federation for introducing the scheme for awarding prizes to debentures holders. The prizes to be awarded in the case of rural debentures may be in the form of useful agricultural machinery and implements in case the winner prefers these to cash prizes.
- (vi) Central Land Development Banks should collect fixed deposits only from rural areas and only in that case should such deposits be reckoned while assessing achievements on accounts of the targets for rural debentures.
- (vii) While individual incentives of the staff of the banks in the form of commission for collection of contributions towards rural debentures may not be offered, the performance of the staff in the matter of issuing rural debentures or collecting fixed deposits should be given due weightage in deciding upon their promotions either in the normal course or otherwise or in the matter like giving advance increments.
- (viii) Each Central Land Development Bank should have at least one development officer whose main function will be to organize efforts for mobilizing rural savings by floatation of rural debentures/certificates or by collecting fixed deposits. The person to be appointed as

development officer should have some background and experience in the line. He should prepare special schemes for debentures/certificates for specific areas and also organize publicity required for collecting fixed deposits.

- (ix) The state Governments and Bank may formulate suitable schemes providing for the sale of rural debentures through village official and payment of commission to them on the lines of the scheme for small savings suggested by the Reserve Bank in its circular to the banks issued on 29th January, 1964.
- (x) The publicity that is being undertaken at present by banks regarding sale of rural debentures and collection of fixed deposits is inadequate. The National Co-operative Land Development Bank Federation could play a useful role making arrangements with the All India Radio for suitable announcements in Regional Languages under the rural or commercial board casting programmes. If the federation is required to make payment for these announcements, it may approach the Government of India for providing grants to it for the purpose.⁹

The above measures suggested by committee on co-operative land development banks are very attractive for tapping the rural savings. Therefore, it is suggested that rural savings scheme should be continued and the scheme may be revised on the basis of

9. Reserve Bank of India: Report of the Committee on Co-operative Land Development Banks, Bombay, 1975, pp-240-342

recommendations of the said committee along with the following additional points:

- (1) Mobilisation of rural savings should be in the form of Farmer's Savings Certificates and fixed Deposits instead of Rural Debentures. Since the debentures are issued on particular date which may not be suitable to the farmers, the proposed issue of certificates/deposits shall be a continuous process so that farmers may be encouraged to invest whenever they have savings.
- (2) In order to enable the banks to collect substantial amount through deposits/certificates, the interest rate thereon should be in conformity with the interest on other rural savings and national saving certificates respectively.
- (3) The currency of Farmer's Savings Certificates should be 7 years and 10 years for public and RBI respectively and fixed deposits should be for 1 to 5 years.
- (4) The RBI should provide long-term funds upto 15 years, to the extent the amount collected through farmer certificates from the public at a fairly low rate of interest. This together with the contribution from the RBI will be utilised for the long-term productive loans to agriculturists, at a relatively low rate of interest.
- (5) Farmers savings certificate should be treated on par with national savings certificates for various purposes.
- (6) Field Officers should be posted atleast at the Block Level who will be given the charge of supervision and follow up of the bank loans, as well as, work of mobilisation of rural savings.

The Reserve Bank of India accordingly formulated a scheme of rural debentures in 1957, the main object being mobilisation of rural savings. Since then, scheme has undergone several changes. However, the concept has remained almost the same i.e., tapping rural savings to supplement the resources of the State Cooperative Land Development Banks. Under this scheme, the Land Development Banks used to extend loans for the period upto 15 years and on the Strength of these mortgages, issued rural debenture series divided in two parts, one for $7/15^{\text{th}}$, of the total amount made available for subscription by individuals, and the other part $8/15$ of the amount subscribed entirely by the Reserve Bank of India.

While recognising the importance of rural debentures in mobilising the savings and need for collection of a specified amount in relation to debenture programme of the Bank as stipulated by the Reserve Bank of India, the difficulties experienced by the Bank, which paved the way for its failure, deserve mention here. From the view point of investment, rural debentures did not find much favour for several reasons. This happened because of the imposition of various rigid terms and unattractive yield in spite of the fact these debentures were guaranteed by the Government and were, thus approved trustee securities. An interest of 6.25 per cent offered for 7 years' duration was found to be very unattractive as compared to the then existing interest rates on the deposits with the commercial banks and cooperative banks and some small-scale schemes of the Government. The investment lacked liquidity, as they were redeemable only after 7 years. Investment in rural debentures

meant locking of funds for 7 years, denying its availability till period of maturity. Though they were transferable, yet it was hard to find a buyer in actual practice. Although the Bank could repurchase it for its sinking fund requirements, it had no interest to go in for such repurchases firstly because it was uneconomical and secondly because the Bank had to repurchase the holding of the Reserve Bank of India in the same proportion. Owing to these reasons, it was found difficult to convince the investors to subscribe to these debentures. Besides, the Reserve Bank of India had imposed certain other restrictions on collection from individual who were loanees or prospective loaness or close relative of the loanees. They were not allowed to subscribe within a period of one year from the date of loan advancement. The procedure prescribed by the Bank for compulsory investments of certain amounts in rural debentures required to be made by the loanees who benefited from the Bank's earlier loans and who were interested in the second and subsequent loans, had also been disallowed by the Reserve Bank of India. Relaxation in both the terms and conditions of the rural debentures and the restrictive policy were not approved by the Reserve Bank of India inspite of the representation made by the State Cooperative Land Development Banks and the National Cooperative Land Development Bank's Federation, Bombay. Consequently, the Uttar Pradesh State Cooperative Land Development Bank dropped the scheme of rural debentures in 1972-73.

Table 5.2**Floatation of Rural Debentures by the Bank**

(Rs in Lakhs)

Year		Amount
1965-66	---	4 00
1967-68	---	20 00
1968-69	---	75 00
1970-71	---	41 85
1971-72	---	198 19
1972-73	---	30 00
30 th January, 1982	---	36 00
		(Outstanding)

Source Various issues of the Annual Report of U P Village cooperative Development Bank Ltd

The above table shows that when the Bank started selling the rural debentures during the financial year of 1965-66 it sold debentures worth Rs 4 00 lakhs

The Bank continued its policy of selling these debentures in subsequent years and on 30th June, 1982, the Bank had Rs 36 00 Lakhs worth of outstanding rural debentures

After dropping the scheme of issuing Rural Debentures in the years 1972-73, the Uttar Pradesh State cooperative Village Development Bank Ltd had decided to issue only one type of Debenture, i.e., "Special Development Debentures" The Debentures issued by the Bank since its inception to the end of March 2002 are shown in Table 5.3

TABLE - 5.3

**Growth of Debentures issued by Uttar Pradesh State Cooperative
Village Development Bank Ltd.**

(1960-61 to 2001-2002)

<i>(Rs. in Crores)</i>		
Year	Debenture issued in the year	Percentage increase as compared to previous year
1960-61	-	-
1965-66	3.83	100.00
1970-71	19.22	401.83
1975-76	26.46	37.67
1980-81	49.09	85.53
1985-86	40.44	-17.62
1990-91	141.29	249.38
1991-92	149.99	6.16
1992-93	164.12	9.42
1993-94	180.00	9.68
1994-95	222.04	23.36
1995-96	248.00	11.69
1996-97	289.99	16.93
1997-98	359.98	24.14
1998-99	414.99	15.28
99-2000	480.00	15.67
2000-01	550.00	14.58
2001-02	729.22	32.59

Source:- *Progress at a glance, 36th Annual Report, U P Shalan
Gram Vikas Bank Ltd, Lucknow*

Special Development Debenture

Since the establishment of the Agricultural Refinance and Development Corporation (now merged with the National Bank for Agriculture and Rural Development) in 1963, the Land Development Bank have been provided with another source for obtaining refinance from the said Corporation for certain special schemes of agricultural development. Such scheme are required to be approved by Agriculture Refinance and Development Corporation to become eligible for refinancing facility. A special development debentures series is issued on collection of sizeable mortgages by advancing loans in the scheme areas as per term of the special scheme. The State Government is required to subscribe to the extent of 25 per cent of the debentures floated under the special schemes while the remaining 75 per cent are made available by the National Bank for Agriculture and Rural Development (NABARD). However, in case of schemes for development of minor irrigation, Government liability was to subscribe only 10 per cent of the debentures, the rest 90 per cent was to flow from the NABARD. While refinancing facility made available to the beginning was uniform at 6 per cent, the rate now governing the debentures is at 6.5 per cent for 9 years period and 7.5 per cent for 15 year period. After the establishment of the Agriculture governing the debentures is at 6.5 per cent for 9 years period and 7.5 per cent for 15 period. After the establishment of the Agriculture Refinance and Development Corporation, the Uttar Pradesh State Cooperative Village Development Bank Ltd. formulated various special development schemes involving large

funds raised by availment of refinance through the special development debentures which were an important source supplementing the finances of the Bank.

One of the recommendation of the All India Rural Credit Survey Committee was to shift the emphasis in the loan policies of the land development banks in favour of loans for proposes instead of loan for the repayment of old debt. The committee felt that there was need for the loan development banks to provide loans for productive purposes under special project of agricultural development or land improvement such as construction of major and medium irrigation prospects, and also scope development of plantation and horticulture crops.

In order to meet the credit need for such special development scheme the survey committee recommended the issue of "special development debentures". Since then such debentures are being are issued by the Bank to the extent of loans advanced to it by NABARD. Such advances are given for financing specific schemes of agricultural development only after a through technical-cum-financial scrutiny of the project, and approval by the NABARD. They are subscribed by the NABARD and the State Government. The levels of refinance available from ARDC/NABARD since 1st September, 1981 are as under.⁴

4. ARDC Cncular No. Plan. 1146/MI (152)- 81/82, dated October 5, 1981.

Purpose	Rate of ARDC/NABARD Refinance
(1) (i) Minor Irrigation	95%
(ii) Special Schemes for diversified purposes under capital subsidy scheme for identified small farmers.	95%
(2) Diversified Purposes (other than Farm Mechanisation)	
(i) Small Farmers (other than under special scheme referred above)	90%
(ii) Other Farmers	85%
(3) Farm Mechanisation	75%

The involvement of the State Government is kept with a view to ensuring technical help from it in the implementation of the development project.

Floataion of debentures has been the main and only source of raising loanable funds for the land development banks. Conventionally these banks heavily relied on floatation of ordinary debentures. Later on, however with the establishment of Agriculture Refinance and Development Corporation and subsequently inflow of funds on large scale from International Finance Institutions like World Bank and International Development. Association, special debentures assumed importance. Even if the objective of either of the debentures is same, there are the following basic differences in to sources of loanable funds available to land development bank:

- (1) **Repayment or Redemption Period:** The Period for issue of ordinary debentures is normally 10 and 15 years while the

duration of loan is from 7 to 10 years. As against this, the period for issued of special debentures correlated to the period of loan sanctioned to the borrowers till 1978-79. Since certain problems were face in the this arrangement with individual borrowers, the present practice followed is to issue special debentures for a period which is longer by two years than that of repayment period.

- (2) **Rate of Interest:** At present, the Bank raises its loanable funds through ordinary debentures at the interest rate of 8 percent per annum. For special debentures it is @8.5 percent. On the other hand the Bank charges the interest @ 12 percent per annum on advances for all purposes and advances to minor irriation, and land development purposes. This shows that the interest earned from lending under ordinary debentures is slightly higher than that of special debentures.
- (3) **Repayment or redemption terms:** In case of ordinary debentures the interest is be paid half yearly and principal to be paid on maturity of debentures while the special debentures are redeemed annually on a pro-rate basis and interest to be paid annually on the outstanding debentures.
- (4) **Subscribers:** The investment in ordinary debenture is made by the life Insurance Corporation. State Bank of India, reserve Bank of India, Central and State Government, Commercial Banks, Co-operative Institutions and sister Land Development Banks while the special debentures subscribed only by the State Government and NABARD.

- (5) **Purposes of Advances:** Under the ordinary debentures the banks are entitled to advance loans only for land development investment in minor irrigation schemes, purchase of rights in land and only such other purposes while are basically land based. The non-land based activities which are subsidiary to agriculture such as dairy, poultry, sericulture etc. are not covered under ordinary debentures programme. The loan under special debentures, however, include both land based as well as non-land based activities.
- (6) **Investment in Sinking Fund:** Recoveries made under ordinary debenture scheme are to invested in sinking fund and such a provision does not exist in the case of special debentures as the loan period and debenture period are co-terminus and the repayment of special debentures is to be made in equal yearly instalments.

Types of Special Debentures

The special development debentures are classified according to the special development projects undertaken by the Bank as follows:⁵

- (i) **Debentures Under ARDC Old Projects:** These type of debentures were issued under the old schemes of Agriculture Refinance and Development Corporation. The term of floatation of such debentures concids to the periods of the loan distributed it its members. The principal amount is to be redeemed on the expiry of the

5. By the courtesy of Assistant Director, U.P. Co-opreative Land Development Bank Ltd., Srinagar.

period and interest to be paid half yearly due on 1st March and 1st September, of each year.

- (ii) **Debentures Under IDA Projects:** These debentures were floated to the extent of the amount distributed in the area of IDA projects for the period of 7 to 15 years (i.e., the period for loan distributed to the borrowers) in different sets. Interest are to be paid yearly on 1st April each year. The principal amount are to may and be paid on each year in annual instalments calculated on the basis of the repayment schedules
- (iii) **Debentures Under ARDC Credit Projects:** These debentures are issued to the extent of loan distributed in the area where schemes are implemented for a period of 7 to 15 years corresponding to the period of loan distributed to the members. The interest is paid half yearly on 1st September and 1st March of each years and principal amount is paid yearly. The amount of annual instalment fixed according to the repayment schedules.

The permission for issue of special development debentures are granted by NABARD instead of the Reserve Bank of India. The permission for issue of debentures granted on the basis of the fiscal and financial targets of different project areas. If any branch has distributed loans exceeding the limit fixed under the provisions of Regulation of Advances, no permission for the floatation of debentures for the excess amount is granted to the Branch. The excess amount of loan distributed by the Branch has to be met out of it own resources.

Redemption of Debentures – Maintenance of Sinking Fund

The U.P. State Cooperative Village Development Bank Ltd. raise large amount of loanable fund from debentures. The mode of repayment of ordinary debentures, rural debentures and special debentures (old ARD scheme) are fixed on maturity. The special debentures (except old project), which are mainly subscribed by ARDC are redeemed on the basis of equated annual instalment system. For the purpose of repayment of former debentures, a special sinking fund system is being followed and the later the annual payments are made.

Sinking Fund is a device which has been created to redeem the debentures after their maturity. Under sinking fund, the banks are required to contribute to these funds annually, such sum out of loan recoveries as together with interest, would be sufficient to amortise the amount of debentures fully on maturity. The importance of maintaining sinking funds for amortisation of debentures was stressed by the Reserve Bank of India in 1936 in a circular on the Financing of Land Mortgage Bank of India. It was observed that “the creation of a sinking fund is in fact a guarantee of those who invest in the debentures and will have sufficient funds to meet its liability when debentures fall due for repayment. Land Mortgage Bank by maintaining regular sinking fund for the redemption of debentures will increase the popularity of their debentures with genuine investors and should eventually be able to find a market for them without the guarantee of the Government.”

The main object of the constitution of sinking fund advised by the Reserve Bank of India was to create a sense of security in the mind of the investors about the bank's ability to honour the

claims of the debenture holders as the sinking fund provides an additional guarantee to the investors in addition to the State Government guarantee for the repayment of principal interest. The Government who is the guarantor of the debentures will also be satisfied with this scientific arrangement.

In the earlier years, the bank had to constitute a sinking fund separately for each series of debentures floated on the advice of the Reserve Bank of India and this was discontinued following the recommendations of Conference of Land Mortgage Banks convened by the Reserve Bank of India in September, 1960 that there need not to be separate sinking funds for the different series and that the banks might have a common sinking fund for all the series to be used by them for the redemption of any maturity series. The above recommendation was later endorsed by the Standing Advisory Committee and accepted by the Reserve Bank of India. Thus, at present the land development banks are required under their bye-laws to constitute a common sinking fund to redeem the debentures on maturity for all series of debentures in the floatation.

The different methods are followed with regards to contribution to the sinking fund, viz., 'Equated Instalment System' and 'Fixed Instalment System'. In the equated instalment system, the banks are required to pay into the sinking fund and equated contribution together with compound interest sufficient to redeem the debentures at the end of the period for which debentures are issued. In the fixed instalment system, the banks are required to contribute into the sinking fund, a sum equal to the amount of the series. Divided by the number of years, for which the series has

been issued. The former method scientific and later method is simple. Any how, the basis of both sinking funds and objectives are the same.

Investment of Sinking Fund

The amount of sinking fund has to be invested outside the business of the bank. It, therefore, becomes necessary for the bank to invest the amount in a manner, which would satisfy three important tests, viz., safety, profitability and liquidity. The investment have to be safe because any deterioration in the value will eventually affect the ability of the banks to meet their commitments to the debenture holders in such a manner that there is optimum yield. Liquidity is important from the point of redeeming the debentures on time.

The amount credited to the sinking fund can be invested at present in the following pattern as prescribed by the Reserve Bank of India:

- (i) Not less than 20 percent in Government and other trustee securities including bonds issued by the Agriculture Refinance Development Corporation of which not less than 10 percent should be in Government securities. Within this permissible limit the bank can invest in units issued by the Unit Trust of India not exceeding 5 percent of the total investment in sinking fund at any point of time;
- (ii) Upto 40 percent in fixed deposits with the State Cooperative Banks under certain conditions, with Commercial Banks, Central Cooperative Banks under classification of A & B can also be made eligible for this

deposit as they help LDBs in subscribing their debentures; and

- (iii) The balance of 40 percent in their own debentures or those of the Sister Land Development Banks. But the banks need to keep investment in their own debentures to the minimum as this takes away the very basis of the scheme of mutual support.

The pattern of investment was examined by the study group appointed by the committee on LDBs and the following recommendations were made:

“While considering any changes in the present of investment of sinking fund, it is necessary to ensure that the investment not only conform to the three cardinal principles of liquidity, safety and profitability, but also that the funds are retained as far as possible with the cooperative sector in view of the large resources needed by this sector.”

Thus the investment of sinking fund of the bank fully satisfied the above recommendation, i.e., the investment assures the liquidity, safety and profitability as about above 90 percent investment of sinking fund within the cooperative sector.

II - Owned Capital

A strong position of owned funds is desired for the reason that it is available free of cost to the Bank and can be profitably invested in lending or it can be a substitute for interim accommodation obtained from the State Bank of India. It is also desirable because it enables the Bank to absorb overdues that are

likely to arise during the course of its lending operations. It may, however, be necessary to examine as to what constitute owned funds of the Bank. They consist of Share Capital, Statutory Resource funds and other funds. The growth of owned capital of the Bank has been presented in table 5.4 for the period from 1960-61 to 2001-2002.

The Table shows that the Bank started its operation in 1960-61 with Rs. 0.16 crore as its owned Capital. The Owned Capital of the Bank was Rs.0.95 Crore in 1965-66, Rs.6.80 Crore in 1970-71 and Rs. 10.50 Crore in the financial year 1975-76. The Bank recorded on increase of 493.75 percent, 615.79 percent and 186.76 percent in their respective. Preceding years. The Bank on it increasing trend in owned Capital each year, but its percentage increase as campers to the proceeding year was not can start as it is exigent from the table that in the year 1980-81 its owned capital was Rs. 44.66 crore which is 129.03 percent more than preceding year but the progress in percentage come down in the next year, i.e , in the financial year 1985-86 it was only to percentage increase and owned capital was Rs. 76.27 crors. Like wise the Owned Capital amounted to Rs. 106.53 crors in 1990-91, Rs 115.80 in 1991-92 and Rs. 183.05 crore in the year 1995-96. The percentage increase as compose to the preceeding year were recorded as 39.67 percent, 8.70 percent and 17.05 percent which was ups and down trend. Keeping it progressive tracking owned Capital, the Bank was having Rs. 202.50 crore in 1996-97, Rs. 209.29 crore in 1997-98 and 2276.24 crore in 1998-99 and it reached to Rs. 246.77 crore in 99-2000, Rs. 283-99 crore in 200-01 and at the end of March 2002 it was Rs. 309.45 crore. The percentage increase as compose

TABLE - 5.4

**GROWTH OF OWNED CAPITAL OF UTTAR PRADESH STATE COOPERATIVE
VILLAGE DEVELOPMENT BANK LTD.
(1960-61 TO 2001-2002)**

<i>(Rs. in Crores)</i>		
Year	Amount	Percentage increase/Decrease Over Preceeding Year
1960-61	0.16	
1965-66	0.95	493.75
1970-71	6.80	615.79
1975-76	19.50	186.76
1980-81	44.66	129.03
1985-86	76.27	70.78
1990-91	106.53	39.67
1991-92	115.80	8.70
1992-93	120.40	3.97
1993-94	128.07	6.37
1994-95	156.39	22.11
1995-96	183.05	17.05
1996-97	202.56	10.66
1997-98	209.26	3.31
1998-99	227.24	8.59
99-2000	246.77	8.59
2000-01	283.99	15.08
2001-02	309.45	8.97

Source: Progress at glance, 36th Annual Report, U.P. Shakari Gram Vikas Bank Ltd, Lucknow

to preceding years was 10.66 percent in 1996-97 which fall to 3.31 percent in 1997-98 and again it recorded an increase and reached to 8.59 percent in 1998-99, 1999-2000 and 15.08 percent in 2000-2001. At the end of 2001-2002 it achieved 8.97 percent increase.

From the analysis of the Table 5.4 we can conclude that the Bank has recorded an increase in its owned Capital each year. But its percentage increase as compared to preceding year was not constant, it was having up and down trend.

Share Capital

Share Capital is the primary and the basic source of funds. The share capital, besides, being a source of financial strength to a banking institution, are of special significance to the land mortgage banks as they serve the needs of interim finance required by them. The Uttar Pradesh State Cooperative Village Development Bank Ltd. issues two types of shares, viz., Type A-Share of State Government and Type B- share of borrowing members. Under the bank's policy., to enroll as a member, one has to purchase a share of Rs. 10.00 and to pay Rs. 1.00 as entrance fee. The Uttar Pradesh State Cooperative Village Development Bank Ltd. collects its share capital from the borrowers at the rate of 5 percent of loan advance in multiples of Rs. 20.00. Every borrower is required to purchase at least one share of Rs. 10.00 at the time of the submission of loan application to become the member of the Bank. The rest of the 5 percent is generally collected by a deduction from the borrowed amount at the time of advance.

The State Government also makes a contribution to the share capital. The amount of contribution to the share capital of U.P. State Cooperative Village Development Bank Ltd. is decided by the State Government from time to time on the basis of the economic position of the Bank. In order to ensure adequate share capital contribution, the all India Rural Credit Survey Committee (1954) had recommended that the proportion of share capital to be contributed by state Government, subject to minimum of 51 percent, might have to be of a much large proportion than in the case of apex banks or central banks. The committee felt that the size of the Government contribution to share capital should ordinarily be such as to help establish, irrespective of the proportion of private share capital forthcoming, an adequate number of central land mortgage banks whose financial structure enables them to borrow adequately and lend adequately.¹ The above recommendation was made in view of the huge requirement of funds for the accelerating agricultural development under the Five Year Plans.

Again, the All India Rural Credit Review Committee (1969) recommended a modification on State contribution of share capital of Central land Development Banks (CLDB). The Committee viewed that "we do not attach special significance to the mere proportion of State contribution to total share capital but do consider that it should be substantial in the case of young institutions as well as those which contemplate a steep increase in these operations. It is a welcome feature that the relatively weak

1. Reserve Bank of India, All India rural Credit Survey Committee Report, 1954, Vol. II, p. 437.

CLDBs have generally received substantially contribution from the Government. It may well be that in some other case too, there is need for larger participation by State Government than it obtains at present. It is suggested that instances of this type may be examined since increased contribution may be called for by factor such as sizable expansion of loan operations or relatively slow growth of member's share capital.²

The National Agricultural Credit (long-term operations) Fund has been utilized for granting long-term loans to the State Government at concessional rate of interest to enable them to contribute to the share capital of co-operative institutions. The Uttar Pradesh State Cooperative Village Development Bank Ltd. has collected its share capital of worth Rs. 167.69 crore by the end of March 31, 2002. The share capital of the Bank comprises shares held by state Government and shares held by individual members of the Bank. The growth of share capital of Uttar Pradesh State Cooperative Village Development Bank Ltd. has been shown in Table 5.5

The table 5.5 reveals that the share capital of the Bank has continued to improve right from the beginning. During the financial year 1960-61 the Bank had Rs. 0.15 crores worth of share capital which went up to Rs. 6.10 crores during the year 1970-71 which was 593.18 percent increase to its preceding year. The progress in share capital of the Bank was registered during 1985-86 and 1990-91 when it has Rs. 35.21 crores and 53.27 crores as its share capital. The percentage increase in share capital in the

2. Reserve Bank of India: All India Rural Credit Committee Report, 1969, p. 768.

TABLE - 5.5

**GROWTH OF SHARE CAPITAL OF UTTAR PRADESH STATE
COOPERATIVE VILLAGE DEVELOPMENT BANK LTD.
(1960-61 TO 2001-2002)**

<i>(Rs. in Crores)</i>		
Year	Amount	Percentage increase/Decrease Over Preceding Year
1960-61	0.15	-
1965-66	0.88	486.67
1970-71	6.10	593.18
1975-76	14.91	144.43
1980-81	28.22	89.27
1985-86	35.21	24.77
1990-91	53.27	51.29
1991-92	57.78	8.47
1992-93	61.82	6.99
1993-94	68.25	10.40
1994-95	74.07	8.53
1995-96	82.51	11.39
1996-97	92.21	11.76
1997-98	89.62	-2.81
1998-99	107.58	20.04
99-2000	127.11	18.15
2000-01	150.65	18.52
2001-02	167.69	11.31

Source Progress at glance, 36th Annual Report, U P Shakari Gram Vikas Bank Ltd, Lucknow

same period as compare to the preceeding year was 24.77 percent and 51.29 percent respectively. The aamount want up to Rs. 68.25 crores in 1993-94 and Rs. 82-51 crase in the year 1995-96. The reason for this increase in the share capital of the Bank was the fresh regulatory prevent imposed by Reserve Bank of India.³

Keeping its progressive trent, the share capital of the Bank went up to Rs. 92.21 case in 1996-97, Rs 107.58 crore in 1998-99 and Rs. 150.65 crores in 2000-2001. The percentage increase in the share capital of the Bank in the year was 11.75 percent, 20.64 percent and 18.52 percent as compare to preceding year. At the end of March 2002 the share capital of the Bank was Rs. 167.69 crores which was 11.31 percent more then the prurient year.

The percentage increase in the share capital of the Bank between 1991-92 to 1996-97 was between 8 percent to 11 percent, but it came down to 2.81 percent in 1997-98 due to adverse political condition. After wards the increase in share capital of the Bank was between 11 percent to 20 percent which can be said a satisfaction growth.

Working Capital

The Working Capital of the Uttar Pradesh State Cooperative Village Development Bank Ltd. consists of debentures, share capital, cash credit and overdraft. The Table 5.6 shows the growth of working capital of the Bank.

3. Reserve Bank of India; Caviler NO. ACD/LDB. 68/DI/95-96 dated July, 17, 1995.

TABLE - 5.6

**GROWTH OF WORKING CAPITAL OF UTTAR PRADESH STATE COOPERATIVE
VILLAGE DEVELOPMENT BANK LTD.**

(1960-61 TO 2001-2002)

(Rs. in Crores)

Year	Share Capital	Working Capital	Woned Capital
1960-61	0.15	0.16	0.16
1965-66	0.88	9.15	0.95
1970-71	6.10	93.81	6.80
1975-76	14.91	226.85	19.50
1980-81	28.22	361.85	44.66
1985-86	35.21	441.03	76.27
1990-91	53.27	711.09	106.53
1991-92	57.78	805.29	115.80
1992-93	61.82	879.32	120.40
1993-94	68.25	977.94	128.07
1994-95	74.07	1129.15	156.39
1995-96	82.51	1287.82	183.05
1996-97	92.21	1465.56	202.56
1997-98	89.62	1673.93	209.26
1998-99	107.58	1916.75	227.24
99-2000	127.11	2191.50	246.77
2000-01	150.65	2528.58	283.99
2001-02	167.69	2983.96	309.45

Source: Progress at glance, 36th Annual Report, U.P. Shakari Gram Vikas Bank Ltd, Lucknow

In table 5.6 an attempt have been made to analyse the trend and growth of working capital of Uttar Pradesh State Cooperative Village Development Bank since 1960-61 to 2001-2002. In the financial year 1960-61, the working capital of the Bank was Rs. 0.167 Crore. Which increased to Rs. 9.15 crore in 1965-66 recording an exceptional increase of 5618.75 percent. This is because the Bank has started its working in 1960 and over the past 5 years it had to buildup a strong financial base to meet out the growing demand of cultivators for long term loans. This was also the period of 3rd five year plan where in emphasis was laid down on the development of agriculture. The state of Uttar Pradesh being an agriculture oriented State, it had to look after the welfare of its peasantry and there by provide a basis for the development of State as a whole.

The increasing trend of the Bank continued till 1980-81, when the working capital amounted to Rs. 361.85 crore recorded 59.51 percent increase over 1975-76. There after the progress was having ups and downtrend till the end of 1992-93.

After 92-93 the Bank maintained its progressive trend continuously. It was between 11 Percent to 18 percent.

The Bank was having Rs. 2528.58 crore as its working capital at the end of the financial year 2000-2001 which was 15.38 percent more than the preceding year.

The working capital reached to Rs. 2983.96 crore at the end of March. 2002, which is 18.01 percent increase as, compare to the last financial year 2000-2001.

Reserve Fund

The other important constituent of owned funds is the reserve fund of the Bank. Under the provision of the bye-laws of the Bank, at least 25 percent of the profit has to be diverted to reserve fund of the Bank every year. This fund belongs to the Bank and is intended to meet the unforeseen losses. The fund may be invested in Government or trustee securities or in the business of the Bank in such proportion as may be decided by its Board of Directors with the permission of the Registrar, Co-operative Societies, as per provision of the bye-laws. Normally, the owned funds of the Bank are utilised in its business mainly for collection of mortgage on the strength of which debentures are floated. If the owned funds are looked in any other form, i.e., general investment or in meeting sinking funds commitments, the Bank may have to avail itself of interim accommodation to a considerable extent at high rate of interest ranging from 9.00 to 9.25 percent at present.

Interim Finance

Interim Finance is important source of finance of the Bank. Debentures, which are the main source of funds of the land development bank, are floated on the security of mortgage Executed mortgages, without payment of consideration do not form part of a valid security. It is necessary to convert executed mortgage into paid or effective mortgages so that they may become valid security for debenture floatation. It is essential for the Bank to make interim financial arrangements to bridge the time gap between the period of execution of mortgage deeds and

floatation of debentures. This arrangement of providing financial accommodation is called 'Interim Finance'.

The interim finance is provided in the form of cash credit and overdrafts by following institutions:

- (a) State/District Co-operative Banks
- (b) State Government
- (c) State Bank of India and its subsidiaries, and
- (d) Commercial Banks

In Uttar Pradesh, the Uttar Pradesh State Co-operative Bank/District Co-operative Banks and State Bank of Indian are providing the maximum amount of interim finance to the Bank in the form of cash credit and overdrafts respectively. The State Government have to stand as running surety for the payment of principal amount together with interest on the amount of interim finance.

The Bank has to pay higher rates of interest on cash credit and overdraft. It paid interest @ 10.5 per cent to the State Co-operative Bank. It will be beneficial for the Bank to enhance its internal resources and reduce its dependence on such external resources.

Uttar Pradesh State Co-operative Village Development Bank Ltd. found that there was good scope for attracting fixed deposits and they can be used as interim finance for which they pay high rate of interest. They, therefore, approached the Reserve Bank of India in 1969 for permission to accept fixed deposits. In June 1971, the Reserve Bank of India approved the scheme of collecting deposits by land development banks in view of their inability to tap rural savings by floatation of rural debentures from individuals

only (except borrowers or their reductions within a period of year from disbursement of the loan or before such disbursement) for a period exceeding one year but upto two years at 8 per cent interest. The Bank also required to keep at least 10 per cent of total deposits accepted and outstanding on any day in liquid form either by way of (i) cash with itself, (ii) current deposit account with the State Co-operative Bank, and (iii) unencumbered securities of State or Central Government.

Deposits do not play any significant role as a source of finance of Uttar Pradesh State Cooperative Village Development Bank Ltd. The mortgage banking is entirely different from the deposit banking. The Bank generally does not deal in short-term deposits.

Although, the sources of financial arrangement (mostly borrowed) already discussed were found to provide adequate funds to the Bank for financing its lending operation, the dependence on borrowed funds is not a good indication for any progressive institution. Thus, the Uttar Pradesh State Cooperative Village Development Bank Ltd. should consider proposed scheme for tapping the rural savings. It will also fulfil requirements set by the Reserve Bank of India Act.

Management of Funds

The Uttar Pradesh Cooperative Village Development Bank Ltd. came into existence for extending the facilities of long-term credit to the farmers of their respective places. As already observed in this chapter, the owned funds of the Uttar Pradesh Cooperative Village Development Bank Ltd. form a faction of the

loaning operation. The bulk of resources, are, therefore, raised by the Bank by way of borrowing in the form of floatation of debentures. The Bank can float debentures only after advancement of loans, which form a cover for such floatation. As the Banks owned resources are meagre, they raise resources for their initial loaning by way of borrowing for a short period as an interim accommodation from the State Co-operative Bank/ NABARD. The proceeds of the floatation of debentures are expected to be mainly utilised to liquidate the short-term borrowings under interim accommodation, which is comparatively costly. The debentures are redeemed on the basis of repayment schedule out of the amount of recovery made from borrowers and sinking –fund maintained for this purpose.

Uttar Pradesh Cooperative Village Development Bank Ltd. on its part provides loans to the farmers through its branches which are located at the District/ Tehsil/ Block levels. Branches of the Bank can issue loans either from their owned funds and or from funds provided by the NABARD. Similarly they have to remit the amount received by them on account of recoveries from borrowers. This process continues throughout the year at the Apex and Base level.

From the pattern of working of Uttar Pradesh State Cooperative Village Development Bank Ltd. and its branches, it appears that there is very little scope for accumulation of idle funds at any level. Moreover, the Reserve Bank of India has been issuing instructions from time to time on this subject to help the Bank in the proper management of funds. The important instructions are as under:

- (1) Utilization of owned funds and recoveries effected by State Land Development Bank for issue of fresh loans instead of drawing on interim accommodation for the purpose and using interim accommodation at the time of making appropriations towards sinking funds to the extent the recoveries have been diverted for loaning.
- (2) Proper planning of the debentures floatation to avoid unprofitable development of resources.
- (3) Contribution to the sinking fund at proper timing to ensure optimum utilization of their resources.
- (4) Introduction of a system of reimbursement by State Land Development Bank for funds to be provided to Branches of SLDBs by making use of temporary, Cash credit facilities from commercial or co-operative banks.
- (5) Evaluation of appropriate procedures where by the recoveries effected by the branches of the Bank are passed on quickly to the SLDBs so that wastage of resource is avoided at any level.

However, in practice, accumulation of idle funds is found to be taking place both at the level of apex and level of branches resulting in the loss of interest to the Bank.

The Committee on Co-operative Land Development Banks has identified the causes of idle funds which are indicated below:¹⁰

- (i) In the case of Central Land Development Banks, the problem of idle funds arises due to draws on interim

10. Reserve Bank of India, Report of Committee on Co-operative Land Development Banks, Bombay, 1975, pp. 165-66.

accommodation coupled with floatation of debentures at a period when the banks have either received considerable amount of recoveries or the recoveries are to be received shortly after the debenture floatation. It may also arise in case interim finance has been utilised for initial loaning although the bank has adequate owned funds for the purpose or when debentures proceeds have not been to repay outstanding under the interim accommodation. In the case of banks which do not have adequate funds and have to depend on interim accommodation for initial operations, the problem of idle fund can arise if they do not use part of the recoveries in excess of the requirements of sinking fund for fresh loaning as also when they do not follow a systematic procedure for making contribution towards the sinking fund

- (ii) In case of Primary Banks, the problem of idle funds arises mainly because they do not utilised the amount from the Central Land Development Bank. Promptly in issuing loans or they do not pass on the recoveries to the latter regularly. The primary banks are found to be doing this because of the apprehension that the Central Land Development Bank may not provide them with funds promptly resulting in delay in disbursement of loans at their end. The building up of idle funds also arises when there is considerable delay on the part of primary banks in disbursing second or subsequent instalments of loans which may be either due to non-receipt of utilization certificates in respect of the earlier instalments or

because borrowers do not approach the Bank for drawing the amount. In general, the problem of idle funds arises because of lack of proper understanding in regard to the period when banks need funds for disbursement and the period when they receive recoveries from cultivators.

- (iii) Apart from the reason given above, the problem of idle funds in Central Land Development Bank can also arise because of unsystematic management of funds and lack of proper prospective in regard to the availability of resources from time to time. For example, in the case of one Bank it was observed that even when it had adequate owned funds, it was utilized interim accommodation for giving loans to cultivators. The Bank was also not following the system of clearing the outstandings in respect of interim accommodation after each debenture floatation. At times, the Bank was found to be having large amounts in call deposits with commercial banks, although it was raising resources on account of interim accommodation at a comparatively higher rate of interest. The problem of idle fund is also found to arise because of inordinate delays in making repayments by primary banks to the Central Land Development Bank.

It is needless to mention here that the working results in the form of profits or surplus are realised not merely from the margin that banks retained on loans, but depend greatly on the efficient management of funds. Thus, proper management of funds of U.P. State Cooperative Village Development Bank Ltd. has greater significance particularly as it had to handle mostly the borrowed

funds. Therefore, the Bank should carefully plan the development of their own disposeable resources in the most profitable manner and make determined efforts to reduce their independence on interim accommodation because resources to such borrowings is costly.

The above discussion indicates that the transactions of SLDB and its branches/PLDBs are generally confined to the cash. Hence, the study of cash management by the U.P. State Cooperative Village Development Bank Ltd. has been undertaken.

Measurement of cash balances is an important part of the cash management. The relevance of cash balance in the study of cash management is because of its important role in an organisation. It is the cash which keeps an organisation going. Hence, every organisation has to hold necessary cash for its existence. But in the modern business world, no business can afford the luxury of having too much of cash because of its non-availability particularly due to ever increasing difficulties and cost of borrowings. Moreover, cash being the least productive of assets incurs for organisation as opportunity cost through its non-use Louis K. Brandt has amply emphasised the fact of opportunity cost of cash as under:

“The cost results from holding cash inactive in the bank or on the premises of the enterprise instead of employing it profitably in operations. This cost is present regardless of the amount in the balance but it becomes more significant as the quantity of cash increases. When the stock of cash falls to very low

levels, cost consideration becomes secondary in importance to liquidity risk.¹¹

In other words, there are distinct economic disadvantages in maintaining cash inventories which are too far below or above actual demand. It is therefore, desirable that the cash balances in the bank as well as in the organisation be minimised as much as possible at lowest figures adequate to meet current obligations.

The U.P. State Cooperative Village Development Bank Ltd. has adopted the system of raising funds for its lending operation almost through floatation of debentures as already discussed in the chapter. The Bank is providing the long-term credit to the farmers of the State through its branches located at Tehsil/Block headquarters. For this purpose the Head Office provides funds to its branches. The branches have been asked to maintain three accounts, viz. General Accounts, Loan Account and Recovery Account with the branch of respective District Cooperative Bank. The General Account is to be maintained for the purpose of payment of salary of staff and to meet the recurring and non-recurring expenses. The Loan Account at branches being operated to disburse loans to borrowers and recovery account is maintained to deposit the amount recovered from borrowers which is to be passed on to the Head Office. There is no provision to transfer the money from one account to other.

During the past years the U.P. State Cooperative Village Development Bank Ltd. has changed the system of providing the funds to the branches for loaning by the Head Office directly.

11. Brandt, Louis K., Business Finance- A Management Approach, New Jersey, 1965, p. 121.

Under the present system, the branches have to send their requirements to the District Office weekly or whenever they require funds. Thereafter, the District Office shall send the consolidated demand for the district to the Head Office. The Head Office provides the funds to the District Office which are to be distributed among the branches of the district as per their requirements. The Branch Manager is made responsible to deposit the recovery amount in the recovery account and pass it on to the Head Office directly through bank draft. Besides this, the Head Office has delegated the powers to avail cash credit facilities from District Cooperative Bank to the extent of Rs.2 lakhs to each branch. In spite of the above arrangement, the U.P. State Cooperative Village Development Bank Ltd. has huge amount in the shape of cash and bank balances at branch level as well as at Head Office level. The reasons are the same as described by the Committee on the Cooperative Land Development Banks. The cash and bank balances of the U.P. State Cooperative Village Development Bank Ltd. as on 31st March, 1999-2000 and 2000-2001 have been presented in the Table 5.7

Table 5.7 indicates that the cash and bank balances of the branches were Rs.3.81 crores at the end of 31st March 2000. It increased to Rs.4.12 crores at the end of financial year 2000-2001. On the other side, the cash credit and overdraft account balances of the branches were Rs.2.02 crores and Rs.2.98 crores in the financial year 1999-2000 and 2000-2001 respectively. Similarly, the cash and bank balances at the Head Office were Rs.2.72 crores in the year 1999-2000 and Rs.1.78 crores at the end of financial year 2000-2001. There were no cash credit and bank overdraft at

the Head Office. An amount of Rs.13.56 crores and Rs.1.78 crores was in transit which is quite handsome amount. If we add up the cash credit and bank overdraft amounts, with the money available in the cash and bank balances, the figure come to Rs.18.07 crores and Rs.10.81 crores for the respective year which is a big amount kept idle with the branches and at the Head Office.

Table 5.7

**Idle Cash and Bank Balance of Uttar Pradesh State
Cooperative Village Development Bank Ltd. : (as on 31st March
(Rs. in Crores)**

S. No.	Particulars	1999-2000	2000-2001
1.	Branch Balance		
	(a) Cash and Bank Balance	3.81	4.12
	(b) Cash Credit and Bank over draft	2.02	2.98
	(a) Net Balance (a-b)	1.79	
2.	Head Office Balance		1.14
	(a) Cash and bank Balance	2.72	1.78
	(b) Cash Credit and Bank Overdraft	---	---
	(c) Net Balance (a-b)	2.72	1.78
3.	Cash in Transit	13.56	7.89
4.	Total Net Cash and Bank Balance		
	[1(c) + 2 (c) + 3]	+18.07	+10.81

Source: compiled from the Balance sheet of Uttar Pradesh State Cooperative Village Development Bank Ltd. for the respective years.

This indicates the attitude of the Bank which is not using the money recovered for further lending. This attitude is based on their conservative thinking of keeping money very secure for redemption of debentures and contribution towards the sinking

fund only. Similarly, the branches are maintaining three different accounts for different purposes and they are not empowered to transfer money from each other. In other words, the branches are bound to avail the cash credit and bank overdraft for loaning operations, although there is sufficient amount in the General and Recovery Account. Such practice is ultimately bound to block the liquid resources as well as resulting in loss of interest, as the U.P. State Cooperative Village Development Bank Ltd. should not receive any return on cash and bank balances, while it has to pay the interest at higher rate on cash credit and overdraft account balances than other sources. The practice of maintaining separate accounts for different purposes is old technique of controlling of diversion of money for other purposes which has been adopted by the Government Departments and Social Institutions, where the cost of funds has no consideration as they have to receive the funds on account of aids, grants, etc. In the case of U.P. State Cooperative Village Development Bank Ltd. dealing with borrowed funds, the maintenance of separate account is not justified, as diversion of money can be controlled through modern financial techniques viz. Funds flow statement, cash budgeting, etc.

The table further, shows that there is a big amount of cash in transit every year, which indicates that the present system is more time consuming and also there are chances of loss in transit. The District Managers have powers to distribute the funds to the branches as per their requirements, but they have no power to transfer the funds of one branch to another branch of the district even the branch has the sufficient idle funds in its account and other is in acute need of funds.

Thus, the U.P. State Cooperative Village Development Bank Ltd. has the idle fund at the level of branches and also at the level of Head Office. This position is not beneficial to the Bank. Therefore, it is suggested that U.P. State Cooperative Village Development Bank Ltd. who should evolve the system to flow the funds from the Head Office to branches and vice-versa, as under:

- (1) District Office should open a 'Central Account' in respective District Cooperative Bank of the district and ask the branches to maintain their account in the branches of Districts Cooperative Bank at their headquarter.
- (2) The branches should function as pay office of the District Office in the matter of cash receipts and payments. The branches of District Cooperative Bank should be directed to send the debit/credit notes for payments and receipts respectively to the District Cooperative Bank under intimation to District Office of the U.P. State Cooperative Village Development Bank Ltd.
- (3) The District Office should have close contact with the District Cooperative Bank and should have a clear and upto date position of the account. If the balance of the Central Account exceeds the subsequent weekly requirement of the branches of the district, it should be remitted to the Central Account, at U.P. State Cooperative Bank, Lucknow under intimation to Head Office or Vice-Versa.

For this purpose, an Assistant Manager (Accounts) should be deputed in the district office to look after and supervise the funds. In this connection, they should be trained with modern financial techniques.

- (4) At the Head Office level, the Bank should open a Central Account in U.P. State Cooperative Bank, Lucknow and watch the position. If there is any deficit, it should be, recouped from drawing the cash credit and overdraft account from NABARD/U.P. State Cooperative Bank. The amount of cash credit and overdraft accounts should be repaid early through floatation of debentures. At present the NABARD has allowed the banks to float the debentures once in a quarter or even once in a calendar month.
- (5) If the U.P. State Cooperative Village Development Bank Ltd. has not sufficient funds for redemption of debentures or for contribution towards the sinking funds, the Bank should draw the deficit amount from cash credit and overdraft for the time being.
- (6) In case the amount available in Central Account exceeds the subsequent requirements, it should be utilised redemption of special debentures before the due date or invested into call deposits.

To conclude it may be said that if the U.P. State Cooperative Village Development Bank Ltd. adopts the above suggested system of flow of funds between Branches and Head office, it shall definitely minimise its liquid fund (cash and bank balances) which would result into low cost of funds on the one hand and make funds available without delay to the branches for providing the loan to the farmers on the other hand.

Chapter - VI

*Loaning Policy and Operation of Uttar
Pradesh State Co-operative Village
Development Bank Ltd.*

CHAPTER – VI

LOANING POLICY AND OPERATION OF UTTAR PRADESH STATE CO-OPERATIVE VILLAGE DEVELOPMENT BANK LTD.

The previous chapter discussed the financial resources of the U.P. State Co-operative Village Development Bank Ltd. The quantum of funds available highlighted the capacity of the Bank with regard to employment of funds. An attempt has been made to review the loaning policy of the Bank and trace out the areas of fault in their policy as well as ways and means to overcome them. A credit policy conducive to smooth flow of funds to agriculture sector would ensure its unhindered growth leading to economic development of the Country.

Loaning Policy and Operation of U. P State Co-Operative Village Development Bank Ltd.

The innovations in agriculture technology have opened up vast potentialities for development of agriculture. They cover a vast spectrum of requirements ranging from adequate and timely availability of various improved inputs such as high yielding varieties of seeds, fertilizers, pesticides, irrigation, improved tools and implements on reasonable price to modernization of agriculture with the help of tractors, tubewells, etc. These are the backbone of our new agriculture strategy. But mere physical

availability of these inputs equipments in the market is no guarantee of their effective use by the farmers. The farmers can use these inputs only when making adequate finances available to them and that too on soft terms makes them capable of using them.

The needs of finance for farmers are both short-term and long-term which is discussed in previous chapter. For providing the short-term finance to them, a number of institutional agencies are engaged for this purpose in Uttar Pradesh. But the long-term financial needs of the farmers are mainly, if not exclusively, provided by the Co-operative Land Development Bank. The long-term credit in co-operative sector is mainly directed to support agricultural development programmes. The ultimate aim of any development programme is to increase the income of the beneficiary and ensuring social welfare backed up by sound economic base.

The programme must also naturally increase productivity and production besides creating additional employment especially among the rural poor, where both un-employment and disguised unemployment are proverbial. To solve these problems, the long-term loans have to correlated to the agricultural development.

Conditions for a Sound Loaning Policy

An essential aspect of co-operative finance is a sound loaning policy. A sound loaning policy of a co-operative institution must ensure the following:-

- (i) **Simplicity in Procedure:** A lengthy and cumbersome procedure must avoid a sound loan policy. It must be

simple in nature so that even illiterate cultivators may understand it.

- (ii) **Adequacy of Loans:** Adequate loans to farmers must ensure a sound loan policy. Only adequate loans can ensure fuller utilization of credit and increase in production. If the credit supplied is inadequate, it will not only fail to meet the need of the production, but also encourage him to misuse the credit for purposes other than production. This may lead repayment difficulties at a large stage.
- (iii) **Timely Disbursement of Loans:** The supply of credit must be available immediately when required. It is said in jurisprudence that 'Justice delayed is justice denied'. It is also applicable with equal force in regard to agriculture credit where 'credit delayed is credit denied'. In other words, untimely loans not only defeat the purpose for which they are sanctioned but instances are not rare where the moneys so received was spent extravagantly.
- (iv) **Production Oriented Loans:** The basis of co-operative loans has been Hasiyat (status) of the borrowing cultivator which depends primarily on the value of land owned by him. This enabled the well to do farmers to grab the lion's share of the advances made by U.P. SLDB. Cultivators who owned little or no land were unable to obtain any loan at all or could get very small amount. As such, their sheet anchor still remained the money-lenders even after 42 years of the functioning of the U.P. state cooperative and village development Ltd. Hence, if the co-operative want to free the cultivators from the clutches of money-lenders, they

must change their loan policy to production oriented instead of security based.

- (v) **Form of credit:** It has been generally seen that the loans given in the form of cash are very easily diverted to other purposes. Hence, as far as possible, they should be given in kind.
- (vi) **Reasonable cost of credit:** The cost of credit should be reasonable while very low rates of interest may encourage unnecessary borrowing and very high rates fail to benefit the cultivators.
- (vii) **Credit Combined with Technical Guidance:** The disbursement of credit must be combined with technical guidance related to various agriculture operation and scientific usages of various inputs. Such credit called are 'supervised agricultural credit'. If the credit has been such a large number of misutilized or unutilised loans.
- (viii) **Scientific Repayment Procedures:** The sound loan policy must ensure scientific repayment procedures. In other words, the amount given must be brought back. Proper recovery of loans is advantageous for institution, as well as, for the borrower too.

Preparation of Application and Sanction of Loan

The Bank accepts the loan application on the prescribed form, which can be had from the Branch Officer of the Bank on nominal cost of Rs.10. The Village Development Offices/Assistant Consolidation Officer/Field Officer of the Bank/Co-operative Societies helps in the preparation of the application for loan. The

completed prescribed application form along with the necessary documents should be handed over to above concerned authorities, who will send the application of loan through his office to the branch of Bank located in that area after making preliminary enquiry.¹

Borrower has to submit 2 attested photographs and copies of revenue record (*Khasra & Khatauni*) along with his application form, there after identification of borrower, field survey, completion of loan application (SGVB-4), verification of the land records *Khasra* and *Khatauni*, land valuation and appraisal of project is done by processing office. The processing may be a bank's employee or an authorized Govt. employee.

After this, the entire loan application is scrutinized by Manager (Legal) of the bank. After removal of objection, (if any) the loan application is kept before Branch Management Committee (B.M.C.) by the branch manager for sanction and sanction the L.S.O. is sent to the borrower. Branch Manager and Branch delegate can sanction loan application upto Rs. 5.00 lacs and the Branch Management Committee obtains formal approval by putting these loan applications in the B.M.C. meeting. The Head Office sanctions loan application above Rs. 5.00 lacs.

Generally, meetings of B.M.C. are convened twice in a month. After the sanction of application, mortgage deed of loan is executed at branch level. On next day of execution of mortgage deed, the Non-Encumbrances certificate (N.E.C.) is obtained through an advocate of duly constituted N.E.C. panel. In case

1. By the Courtesy of Assistant publicity Officer, U.P. shakari Gramin Vikas Bank Ltd. Lucknow.

there is no encumbrances the first installment of the loans released by the manager. After the utilization of first installment (which is given by processing office) second subsequent installment is released.

Field visit is conducted by field staff of bank or Govt. (i.e. processing staff). The manager of the bank also conducts field survey as per requirement.

Valuation of the land is also done by processing authority according to the instructions of NABARD. (i.e. 8 times of the post development income). In some cases circle rates of the land is declared by Disst. Magistrate are also taken into account. This work is done by F.O./A.F.O. (bank employee) or Govt. employee who are authorized for this work.

The borrower has to deposit 10% of the loan amount as share money at the branch (the amount is 5% in case of small/marginal farmers). Down payment varies from 5 to 15% depending upon schemes. Under SGSY and Free Boring schemes, payment is made directly, to the cultivator.

Documentation:-

- (1) Following documents are collected form the borrower:-
 - (a) Two attested recent photographs.
 - (b) Attested copies of land records (*Khasra & Khatauni*).
In case of consolidation C.H-23 in needed.
 - (c) Rs. 20/ as advance, share money + Rs. 3/- as membership fee.
- (2) Property (Land) is mortgaged by the bank in its favour & in case of default band can its dues through auction of mortgage land.

- (3) Mortgage deed is prepared by licensed document write.
- (4) Deed is executed at the branch in presence of Branch Manager. A copy of mortgage deed is sent to sub-registrar (Registration) office, within 90 days of its execution.

Disbursement of Loan

If the application is approved and the loan is sanctioned, the farmer is informed accordingly, and is asked to come to the branch of the Bank to mortgage his land, if necessary. After completing this process, the branch pays the sanctioned loan to the farmer. With a view to avoiding the possible misutilisation and also insisting on the end use of loan, the loan is disbursed in instalments as recommended by NABARD. The numbers of instalments are fixed on the basis of amount of loan and necessary time required for completion of the project. Keeping in view, the vital importance of punctuality and adequacy of agriculture credit, attempts have been made to disburse the required loan 15 days from the date of submission of application.

System of Loan Disbursement:-

- (1) In case of M.I. schemes (Boring + Pumpset) the first installment is released for boring after getting N.E.C. Utilization certificate of first installment be submitted in the bank within 15 days by processing officers.
- (2) In case of 2 animals dairy, installment for one (first) animal is released immediately while the second installment for second animal released after 4-6 months only.
- (3) Completion report is given by the file processing officers/ Field staff checked by Branch Manager and regional Manager from time to time.

As per banks instructions, the disbursement is made within 15 days of the loan application is received at branch. Average actual time taken, is ordinarily 15 days but it may exceed when the loanee takes much time in fulfilling conditions laid by the bank.

- (4) Normally a farmer comes to the banks 4-5 time for the following purposes:-
- (i) To hand over the loan application to bank/Govt. staff.
 - (ii) To execute the mortgage deed.
 - (iii) To obtain first installment of the loan.
 - (iv) Subsequent one or two visit for obtaining second and third installment of the loan.
- (5) Last time the loan procedure was simplified in the year 1999.

It is an established fact that enhancement in agricultural productivity is possible only through adoption of modern technique of farming which requires a huge amount of investment. But under the prevailing condition, the resources owned or other -wise available to majority of the farmers in Uttar Pradesh are quite inadequate for switching over to modern technology. It is indeed, low productivity that necessarily keeps the cultivators experiencing shortage of funds. This keeps their credit worthiness and repaying capacity at low pace, which in turn, deprives the farmers of getting large amount of institutional credit for investment in agriculture.

The situation has not changed much inspite of the Government efforts to enlarge the scope of credit availability to

farmers through revitalising the co-operative credit structure and bringing the nationalised banking sector in this field. Majority of the farmers still fails to avail the credit facility not only on account of low credit worthiness and poor repaying capacity but also due to the complicated and expensive procedure of medium and long-term borrowing from institutional agencies. Also the institutional lending of these loans is land asset oriented and, thus, of little help to the small and marginal farmers. In addition, the situation aggravates since part of the loans borrowed by the farmers are not used for the purposes for which it is given and as a result the repayment of loans becomes most difficult task. The economically weaker section of farmers consequently continues to be in the clutches of private money lenders and under such conditions, farmers hardly think of long-term investment on agricultural development.

Hence, the State Government, by establishing this Bank, has opened fresh avenues to the teeming agriculturists of the State to get long-term loans at reasonable rate of interest from the Bank for agricultural development.

So far as achievement of Bank is to concerned, the Table 5.1 shows that the Bank is busy in advancing a huge amount of loans for various purposes. Out of the total loan disbursed, the major portion is utilised for purchase of tractors and farm mechanisation.

Quantum of Loan

Presently, the quantum of long-term credit advanced by the Uttar Pradesh Land Development Bank is initially linked with the acreage of land owned by the cultivator. The loaning policy of the Bank is, therefore, essentially 'Security oriented'. In other words,

a farmer of big holding is in a position to obtain a large amount of credit because of the large size of holding than a farmer of small holdings.

Any farmer may obtain a loan from Bank upto 50% of the value of the mortgage land. However, the limit is 75% in case of small farmers. While in terms of the project, the Bank generally provides 85% to 95% of the project cost as loan and the rest of the project cost is to be borne by the farmer.

The method of calculation of credit-worthiness of the borrower, followed by the Uttar Pradesh State Cooperative Village Development Bank Ltd. is explained as below—

- (i) Credit worthiness determined on the basis of incremental income (Incremental Income = Net income of benefited land after proposed project minus net income before proposed project.) of the farmer, or
- (ii) 50 percent of the market value of the land to be mortgaged, or
- (iii) 50 percent of land valuation (Land valuation is done on the basis of average sale statistics of the land in the area for the last 5 years or 8 times of the post development income, to be generated after the proposed development. In case of non-farm sector, valuation of land is done on the sale statistics while in cases of farm sector valuation of land is done on the basis of post development income) plus Rs. 4,000/-, Rs. 25,000 or 50 percent of the project cost whichever is less in case of minor irrigation project/purchase of tractor respectively.

The lowest credit worthiness on the basis of (i), (ii) and (iii) formulate, shall be treated as credit-worthiness of the farm for purposes of loan. But in practice, the last formula, i.e. (iii) is used by Bank for determination of credit worthiness of the borrower.

The amount arrived at as above which is considered the maximum amount of loan to the farmers subject to the maximum ceiling of loans as prescribed by NABARD from time to time.

At present, the maximum amount of advances based on unit cost prescribed by NABARD has been shown in Table 5.2.

From the foregoing discussions, it is clear that the Bank has been following, since its inception, a grossly unrealistic and defective policy of advancing loans to the farmers on the basis of their land holdings. Though emphasis on land development became the main activity of the LDB since around 1966, the traditional orientation in the field of providing long-term loans, the attitudes of staff towards land valuation and taking security from the farmers has not undergone a very much change. The attitude and the emphasis of personnel working in the Bank is still security oriented and not enterprising and efficiency oriented.

The rule of thumb policy is destined to favour only big farmers. At many occasions such a policy of advancing loans leads to red tapism, delay, inadequacy of amount, resulting ultimately misutilisation and diversion of such loans. A very simple example is clear the point. Suppose, a farmer own 2 acres of unirrigated land and pays a total land revenue of Rs. 10 per annum and farmer wants to instalment a pumpset, which costs Rs. 10,000. He has net surplus of Rs. 1,000 and need a loan of Rs. 9,000. If he applies for

a loan of 9,000 to the Bank, he will get a loan of Rs, 8,000 calculated as below—

Rs. $10 \times 800 \times 50/100 + 50\%$ of project cost or Rs. 4,000 whichever is less.

TABLE 6.1
STATEMENT OF MAXIMUM CREDIT LIMIT

S.No.	Purpose	Maximum Loan Limit (Rs.)
1.	Diesel pump set	Rs. 15,000/-
2.	Submersible Pump set 10 H.D 6" x 4" 200 feet	Rs. 37,150/-
3.	Sprinkler System (Hectare Wise)	Rs. 14,100 to Rs. 21,600/-
4.	Drip System	Rs. 8,000 to Rs. 82,000/-
5.	Hybrid Cow (Two) (10 Uters)	Rs. 21,530/-
6.	Milk Cattle (Two)	Rs. 23,750/-
7.	Dunlop Cart	Rs. 7,300 to Rs. 9,300/
8.	Polutary (One hundred layers)	Rs. 14,100 to Rs. 17,000/
9.	Fisheries	Upto Rs. 41,700/-
10.	Tractors	85% of the actual bill
11.	Thresher	Rs. 3,000 to Rs. 6,000/-
12.	Small Industries	Rs. 50,000/-
13.	Mini Truck / Tram	Upto Rs. 5,00,000/-
14.	Rural Housing	Upto Rs. 1,50,000/-

Source: By the courtesy of the Publicity Officer U P. Sahkari Gram Vikas Bank Ltd., Lucknow.

Naturally, he can not buy a pumpset, as he has only Rs. 9,000 (own Rs. 1,000 and Rs. 8,000 loan from Bank) in all.

It may not be out of place to mention here that every farmer seeking to borrow from the U.P. SLDB has to contribute for a certain number of shares in proportion to the amount of loan. At present, this is 5 percent in case of small farmers while for others, it is 10 percent of the loan to be sanctioned. As a matter of fact, no borrower pays the share amount earlier. Rather it is adjusted with the loan amount. Thus this further reduces the amount of loan paid to the borrower.

In other words, the Bank sanctions loans much less than required by the borrower in large number of cases. This is mainly because present method of land valuation based on land revenue rate is not scientific and is unfavourable to farmers. In such situation, the borrower can do hardly anything else than diverting this sum toward unproductive channels or misutilies it in a manner that is socially undesirable. It calls for the nationalisation of the valuation method to improve the situation.

Reappraisal of Cost

For sinking and repairing of wells and other unidentifiable productive purposes the cost of project has been found higher or lower than the amount sanctioned for it. Under this condition, the borrowers adopt the following practices:—

- (i) In case, the loan received from the Bank falls short of the requirement:
 - (a) to obtain additional credit which is difficult to get once the entire land of a borrowe is already mortgage to the bank; or

- (b) to invest the available fund without completing the project in hand and thereby blocking the funds.
- (vii) In case, the loans received from Bank are in excess of the requirement, they invest only a small amount of money in order to obtain final instalment of loan from the Bank and divert rest of the fund for other purposes.

Naturally, under the above practices, borrower do not attain the income level that could enable them to pay off instalments of loan. As a result, a good number of such projects are not able to make much headway and investment in a large of such cases get either blocked or diverted.

Thus, there is a need for flexibility in determining the cost of improvements. It is suggested that a revision of cost estimated should be undertaken before the disbursement of further instalments of loan. If at a time, the cost is found to be higher than sanctioned loan, additional amount may be sanctioned without stipulating any condition. Conversely, if the loan amount advanced thus far, exceeds the actual cost, the further instalments may be scaled down proportionately.

Rate of Interest

The lending rate determined by the Board of Directors in consultation with the trustee taking into consideration, the rate of interest at which the Bank can raise money of float debentures. The interest on loan is charged from its ultimate borrower on the loan amount.

Period of Loans

The period of loan sanctioned should normally be limited to the active economic life of the assets is the main principle of

sound land development banking. As per RBI directive, in no case the period of loan should exceed 15 years even though the economic life of the assets created out of loan might be longer. At the time of determining the actual period of loan, in addition to the amount of the net surplus from farm and non-farm income, other factors, viz., quantum of loan, repaying capacity, etc., should also be taken into account to ascertain if a reduction in the period would be feasible. The Bank has fixed different loan periods for different purposes which are:

- | | |
|--|---------------|
| 1. Construction of new well/tube well | 15 years |
| for small farmers and 9 years for other farmers. | |
| 2. Deepening and repair of existing wells | 7 years |
| 3. Preparation of land for irrigation | 7 years |
| 4. Drainage reclamation from rivers or | |
| Other water or protection from floods | |
| Or from erosion or other damage by water | |
| Of land used for agriculture | 7 years |
| 5. Horticulture | 4 to 10 years |
| 6. Purchase of pumpset | 9 years |
| 7. Increase the productive capacity of | |
| Land by addition to it of special | |
| Variety of soil | 5 years |
| 8. Purchase of Tractors/Threshers and | |
| Other agriculture machinery | 9 years |
| 9. Construction of tank and other works | |
| For storage supply or distribution | |
| Of water | 9 years |
| 10. Construction of farm houses, cattle | |

	Shed and sheds for processing	
	Agricultural produce at any stage	7 years
11.	Purchase of land for consolidation	
	Of holding	10 years
12.	Dairy development	5 years
13.	Poultry	6 years
14.	Drip irrigation	9 years
15.	Linining of field channels	9 years
16.	Gobar gas	5 years
17.	Bullock cart	6 years
18.	Fisheries/Sericulture/Nursery/Floriculture	6 years

It is observed that the period of loans are fixed by U.P. State Cooperative Village Development Bank in a mechanical manner without working any exercise in regard to the overall income on the replying capacity of a borrower. It has to be noted that the long-term resources for financing development programmes of agriculture are in most cases from outside sources. It would be quite appropriate, therefore, to have a rotation offered in as minimum a period of time as is legitimately possible with reference to the income and repaying capacity of borrowers.

Supervision And follow-up Measures

It is an irony that U.P. State Cooperative Village Development Bank Ltd. takes no follow-up measure after the disbursement of loans. All the pains taken for collecting, information regarding cropping pattern remain is the files only. But the success of the production oriented system of long-term lending depends on the effective follow-up measures by the Bank relating to the watching of the utilisation of loans and keeping is

close and continuous touch with the borrowers until the loan is fully repaid. The watching of utilisation of loans is essential, so as to stop, its spending for purposes other than sanctioned by the Bank. The continuous and close touch with the borrowers is required to ensure supply of production credit and agricultural requirements like seeds and fertilizers as well as to provide assistance by way of technical guidance from the extension staff so that they may adopt the proposed cropping pattern and get full benefit from the investments made and to able to make prompt payment of loans.

We, therefore, suggest that a system of periodical reporting should be adopted for maintaining a close watch on the economic benefits derived by the borrower from the investment made out of the bank's loan. Under this system, the field staff should maintain active contact with the borrowers and maintain the relevant information in the form of a credit card or a file for each one of them. If there is an adverse result, it should be reported to the branch concerned for corrective and necessary action.

Quantitative Expansion of Credit

Today, the Bank not only provides loans for traditional items like new wells, pumpset, lining of field channel, tractor, dunlop cart etc. under the NABARD and Government sanctioned schemes, but it is also providing loans for other diversified purposes like dairy, animal husbandry, poultry, fisheries and horticulture etc. to make the state self reliant in terms of food grain production and to raise the living standard of the farmers of the state. The loan advanced by the Uttar Pradesh State Cooperative Village

Development Bank Ltd. during the year 1960-61 to 2001-2002 are presented in table 6.2

From the table, it shows that the bank has played a vital role in building-up the rural economy of the state by providing long-term credit for the various schemes. During the first five year of its working i.e., 1960-61 to 1965-66, the quantum of advances was satisfactory. During this stage the bank has advances a total loan of Rs. 8.58 Crores which increases from Rs. 0.03 Crores in the year 1960-61 to Rs. 5.97 Crores in the year 1965-66. Similarly, the progress of loan disbursement in the next five year i.e. between 1965-66 to 1970-71 was Rs. 74.96 Crores which was 262.14% increases from the same last five year.

The progress of loan disbursement during the period 1970-71 to 1975-76 was very slow. There was only 7.17% increase in the period was achieved due to the political unstability and war between India and Pakistan. Further, the position improved in the next five year. There was 126.97% increase between 1975-76 to 1980-81. The total loan advanced during this period was Rs. 245.09 Crores. The progress of loan advancement during this period can be said satisfactory. But again between 1980-81 to 1985-86, the progress of loan was not satisfactory. Rs. 310.03 Crores were advanced between this period which only 42.19% increase as compared to the proceeding period.

But the position of loan disbursement was improved during the period 1985-86 to 1990-91. The total amount advanced during the period was Rs. 570.17 Crores which was 103.65% more than the period of 1980-81 to 1985-86. The progress in loan advancement after 1990-91 to 1995-96 was progressive. It was

TABLE – 6.2
YEAR WISE BREAKUP OF LOANS OF
U.P. STATE COOPERATIVE VILLAGE DEVELOPMENT
BANK LTD.
(DURING 1960-61 TO 2001-2002)

Year	Amount Advanced	Progressive	percentage Increase/
1960-61	0.03	0.03	—
1965-66	5.97	8.58	19800
1970-71	21.62	83.54	262.14
1975-76	23.17	218.11	7.17
1980-81	52.59	463.20	126.97
1985-86	74.78	773.23	42.19
1990-91	152.29	1343.40	103.65
1991-92	180.95	1524.35	18.82
1992-93	198.97	1723.32	9.96
1993-94	211.36	1934.68	6.23
1994-95	257.06	2191.74	21.62
1995-96	294.28	2486.02	40.48
1996-97	365.71	2851.73	24.27
1997-98	416.20	3267.93	13.81
1998-99	512.16	3780.09	23.06
1999-00	580.97	4361.06	13.44
2000-01	661.64	5022.70	13.89
2001-02	680.15	5702.85	2.80

Source: 36th Annual Report, Progress at a Glance, U.P. Cooperative Village Development Bank Ltd., 2000-2001

Rs. 152.29 Crores in 1990-91 to Rs. 211.36 Crores in 1993-94 and it reached to Rs. 294.28 Crores in the year 1995-96. The average percentage increase in this period was 6% to 21%.

The credit disbursement keeps its progressive trend and it reached up to Rs. 5702.85 Crores in the year 2001-2002 upto 31st March. Rs. 365.71 Crores has been advanced in the year 1996-97 was Rs. 580.97 Crores in 1999-2000. It was Rs. 661.64 Crores in 2000-2001 and it reached Rs. 680.15 Crores in 2001-2002 up to 31st March. The percentage increase between this period was 13% to 23% and there was only 2.80% increase in the year 2001-2002 as compared to the preceding year.

Loan Disbursement – A Purpose-Wise Analysis

The committee on Direction of Rural Credit Survey (1954) recommended that the land mortgage (now development) banks should orient their operations to productive purposes i.e., they should give first priority to applicants for loans for improvement, reclamation and development of land, purchase of agricultural machinery and equipments and similar productive purposes. They should discourage application for non-productive loans. The committee also recommended that the applications for loans above a specific figure should not be entertained. Unless the loan was for agricultural development and special effort should be made to popularize productive loans.⁹ In spite of these specific recommendations of all India Rural Credit Survey Committee and

9. All India Rural Credit survey Committee Report. RBI, Bombay 1954. P. 368.

TABLE - 6.3

Purposewise Loans Disbursement by Uttar Pradesh State Cooperative Village Development Bank Ltd. Up to 31st March, 2002

(Rs. in Crores)

S.No.	Purpose	Loan Disbursed		
		No. of Persons Benefited	Amount	% of Total Loan
1	Minurirrigation	3153435	290196.87	50.89
2	Farmmechanisation	165808	80638.62	14.14
3	Diversified	894289	172893.83	30.31
	(a)Dunlupcart	316163	35294.50	6.19
	(b)Dairy	367747	89970.68	6.19
	(c)Animal Husbandry	86805	15344.53	2.69
	(d)Poultry	15154	3214.16	0.56
	(e)Fisheries	7581	2138.96	0.37
	(f)Horticulture	100839	26931.00	4.72
4	Non-Farm Sector	88328	20971.92	3.68
5	Rural Housing	6469	3470.21	0.61
6	Other	4912	309.64	0.05
7	Intitutional Finance	...	1804.01	0.32
	Total	4313241	570285.1	100%

Source: Progress at a glance, 37th Annual Report (20001-2002), Uttar Pradesh Sahkari Gram Vikas Bank Ltd., Lucknow.

directions of the RBI from time to time, these banks continued to advance loans for redemption of prior debts.

Agricultural Refinance Corporation later on renamed as Agriculture Refinance and Development Co-operation (ARDC) opened a new era in the history of land development banking in 1963. It enhanced the scope for the introduction of production oriented system of lending by LDBs as the refinance facilities provided by ARDC were based on production oriented system. In 1964-65, the Reserve Bank of India went a step further in this regard. It announced that those LDBs which advanced at least 80 percent of their loans for productive purposes would be eligible for contribution to their debenture issues by RBI, SBI and LIC. This percentage was further enhanced to 90 percent in 1967-68. Subsequently, in 1969, RBI decided that LDBs should advance 90 percent of the loans for productive purposes of which at least 70 percent should be for easily identifiable productive purposes.¹⁰

It would be interested to note that Uttar Pradesh State Cooperative Village Development Bank Ltd. has disbursed a credit of Rs. 570285.10 Lacs up to 31 March 2002. Since its inception. Of this Rs. 290196.87 lacs and Rs. 80638.62 lacs have been provided for the purpose of Minor Irrigation and Farm Mechanisation respectively, which stood 50.89% and 14.14% of total credit. The bank has provided a total of Rs. 172893.83 lacs for diversified purposes which is 30.31% of the total credit. The

10. Report of the Agricultural Finance sub-Committee, RBI Bombay (Reprint). 1965.

diversified purposes include (a) Dunlop cart (b) Dairy (c) Animal Husbandry (d) Poultry (e) Fisheries; and (f) Horticulture.

The bank has also provided loans for the purpose of Rural Housing, non-farm sector and other purposes. For Rural Housing the bank has disbursed Rs. 3470.21 lacs which is 0.61% of the total credit. It has provided Rs. 20971.92 lacs for non-farm sector which is 3.68% of the total credit.

Table 6.3 shows the total loan provided upto 31st March 2002 by the Bank for different purposes and credit provided by the bank is the last three years.

The foregoing discussion leads to the conclusion that the lending policy of the Bank lack much to the desired. It is infact inhibiting the smooth flow of credit. Also, the valuation of land method adopted by the Bank needs the input of scientific measures. To bring about improvement in the loaning policy as well as land valuation methods the following steps are considered necessary for adoption by the Bank.

As far as the lending policy of U.P. State Cooperative Village Development Bank Ltd. is concerned, the Bank officials should follow a fresh strategy. The official should give up their present policy of advancing loans only to those who are pushing enough to knock at the bank door, ask for the loan and get it. Instead, they will have to adopt a more dynamic and active policy of waking up the underdo, shaking the apathetic among the farmers out of their alumber of age and unhering them into an era of new activities and taking advantage of the technology development.

U.P. State Cooperative Village Development Bank Ltd. should change its lending criteria from 'security oriented' to 'development oriented', i.e. criterion for advancing loans to the farmers should not be the size of land owned by the borrowers, but the economic worth of the project for which loan is required.

An overall programme of branches are fixed on the past recovery performance of concerned branch by U.P. State Cooperative Village Development Bank Ltd. These programmes, besides being unrealistic, were prepared on adhoc basis without being linked to the specific needs and scope for agricultural development in the area concerned. Since lending for agricultural development has to be on planned basis, U.P. State Cooperative Village Development Bank Ltd. will have to ensure that the branches should advance loans with reference to potential for development in specific need of local areas under their jurisdiction. The introduction of a system of specific linking of the annual lending programme of the branches to the development potential in specific area with reference to the need of different categories of cultivators, specially marginal farmers and other weaker sections of the community will bring about a systematic approach in loaning operation of branches and would, thus, make the annual lending programmes realistic instead of their being adhoc and general.

The U.P. State Cooperative Village Development Bank Ltd. should be in close and continuous touch with the borrowers until the loan is fully repaid. As per the practice 'prevalent today, the U.P. State Cooperative Village Development Bank Ltd. officials tend to meet the beneficiary only twice, once, at the time of

disbursing the loan and other, at the time of recovery drive. But the success of production oriented long-term lending depends on effective follow up of the project undertaken by the borrower.

A scientific method of land valuation should take into account different factors such as type of soil, its input absorption capacity, cropping pattern, crop yields and the price trend affect the farm income. But it is not possible to keep factors into consideration for each farm because of small land holding and thereby making the whole exercise highly expensive for the bank. Therefore, to start with a compromise solution may be adopted with the help of technical experts. The Bank may divide each area (Tehsil or District) on the basis of homogeneity of agricultural situation. For homogeneous tracts, land appraisers may determine the average value for dry/irrigated land separately. While doing this, proper weightage may particularly be given to the factors mentioned above. The average value of land determined by the experts, may serve a standard, and the individual cases in the tract may be decided in the context of this standard. It may be mentioned that industrialists are required to submit feasibility reports for projects for getting loans from banks/financial institutions. Similar procedure should be followed by the Land Development Bank also while advancing to the farmers. This will help in determining the profitability of the project undertaken by the borrower.

To keep farm records and do not practice of farm planning and budgeting is the only problem by the farmers. But if the Bank starts insisting on such a criterion, the farmer would automatically start falling in line. They may take the help of experts from the

Government Agricultural Department or the experts of Bank itself in preparing the economic feasibility plan of their farming for which the loan is being sought from the land Development Bank. This will also enable them to know about the details on their projects.

CHAPTER – VII

RECOVERIES AND OVERDUES OF UTTAR PRADESH STATE COOPERATIVE VILLAGE DEVELOPMENT BANK LTD.

The previous chapter discussed the loaning policy and operation of the Uttar Pradesh State Cooperative Village Development Bank Ltd. As loans entail the need for recoveries which are very often not upto the mark, the problem of overdues is created. The present chapter reviews the recovery position of the loans and advances by the Bank and analyses the quantity and extent of overdues with its impact on the affective functioning of the Bank.

Recoveries and Overdues of the Bank:

Recovery performance reflects the efficiency of any system of credit. The recovery of loans should be on due dates. However, almost all the lending institutions are facing the problem of overdues and ARDBs are no exception to it. It is a matter of concern that the overdues of ARDBs have been rising steadily in recent years, in the wake of the expansion of their loan operation. This trend has already assumed such proportions in certain areas that it threatens to affect the further flow of long-term credit. In this Chapter it is proposed to analyse the problem of overdues in its various aspects and suggest measures for minimising the same.

Recovery are essential for a financial institutions, to be financially viable. Also timely pay back help the lending

institution to plough back the resources out of profit. A prompt recovery is thus an important precondition for the success of any lending policy. The increasing overdues not only mar the attainment of future financial target but also adversely affect the generation of internal resources. Thus, the Land Development Bank can move forward only if they record a better repayment performance. This is also necessary under discipline imposed by the Reserve Bank of India and Agricultural Refinance and Development Corporation (now merged in NABARD), under which loan can be disbursed each year, by primary land development banks/branches of State Land Development Banks only on the basis of their recovery performance.

By a system of equated instalment payments, mortgage loan are generally repaid, thereby, the loans are amortised at the end of the period. The most important advantage of this system is that the amount of the instalment payable would not exceed the amounts ordinarily paid by most of the borrowers in the shape of interest alone. According to Prof. Earl L. Butz, four major rules should govern the scheduling of repayment so that:¹

- (i) The principal sum of the loan is ordinarily completely amortised during the term loan;
- (ii) the repayment is scheduled over a sufficiently long period of time in order to enable the borrower to meet ordinarily the scheduled without sacrificing normal living standard;

1. Earl L. Butz, "Economics of Agricultural Production and Resource Use", Prentice Hall of India Pvt. Ltd, New Delhi, 1964, p. 163

- (iii) the term of the loan is not long enough to make the interest costs excessive in relation to the annual principal amortisation payment; and
- (iv) the dates of principal and interest payments coincide with the term at which sales of farm products are likely to occur.

Since the repayment of instalments of loan comes out of the sale of the crops, the land Development Bank should fix the due date for repayment with reference to the period of the crops generally marketed by the farmers. Accordingly, the U.P. State Cooperative Village Development Bank Ltd. has fixed due dates of instalments on First of October and First of April every year, as the case may be. The first instalment of repayment becomes due on expiry of 12 months after the advancement of first instalment of loan for the purchase of pump-set and tractors. In case of all other purpose, this period is 18 months. First instalment due for repayment is only for interest on the total loan outstanding but subsequent instalments include both interest and principal. The Bank recovers the loan in annual instalments except advance for the purchase of pump-set and tractors which are recovered in half yearly instalments. The loan for Dairy Development Schemes are recovered in monthly instalments which commences after expiry of one month period of disbursement of loan.

The bank provides a grace period of three months for the payment of instalments conveniently to the cultivators and also allows one percent of rebate to the borrowers, who pay their instalments due on 1st October/1st April before 31st December/1st May, respectively, but an amount of interest for the period from

the due date of payment is charges in instalments at the rate of loan advanced. If the instalments due on 1st April is paid after 31st May, but before 30th June, no rebate is allowed and interest upto date payment is added in the instalment at the rate of loan advanced. If the farmers pays the instalment before due date, he is allowed a counter interest at the rate of loan advance for the period from the date of payment and upto 30th September/31st March, i.e. due date of instalment. If the due instalments are not paid upto the stipulated period as above, a penal rate of interest i.e., 2 percent excess on the rate of loan advanced is charged.²

If the instalments are not paid within stipulated period after due date, coercive action under U.P. State Cooperative Village Development Bank Act 1964 are taken for the cent percent recovery of loan.

Impact of Overdues

The repayment of loans given by co-operative institutions to their members on due dates is of considerable importance for the success of the credit movement. The Maclagon Committee very rightly stated that “unless loans are repaid punctually co-operation is both financially and educationally an illusion”.³ The overdues caused serious problems to the U.P. Land Development Bank, both financial and administrative. The impact of overdues was also felt on the loan business and viability of the structure. The following

2. By the courtesy of General Manager, U.P Sahkari Gram Vikas Bank Ltd.. Lucknow

3. Report of the Committee on Co-operatives in India, 1975, p. 45

impacts and problems were identified as a result of unsatisfactory recoveries and increasing overdues in the Bank:

- (i) Unsatisfactory recovery position and increasing overdues were mainly responsible for depleted profitability of Bank from year to year. As a result of this the Bank could not build up reserves and other funds and also could not pay dividend to shareholders.
- (ii) As the loans are given for productive purposes to the farmers to generate an enhanced income, the restricted eligibility of advances in relation to recovery performance imposed by the RBI/ARDC (now NABARD) resulted in lower loan advances and short falls in targeted programme for the next year. It also amounted to denial of credit to needy farmers and slow pace of agricultural development. Thus, overdue defeats the very purpose of production oriented long-term lending.
- (iii) High level of overdues affect the position of the U.P. State Cooperative Village Development Bank Ltd. in raising resources by way of floating debentures. Since due to high level of overdues the bank will be in a position to fulfill the commitment of repayment of debentures resulting into non-confidence among the investors. Confidence is an important factor in raising resources and high level of overdues may also not enhance the financial reputation of the Bank.
- (iv) The overdues have caused various financial problems to the Bank, as the principal loan instalments recovered were found inadequate to meet the financial liabilities

towards sinking fund and repayment to NABARD. It may be noted that the sinking fund is created out of the recoveries made through instalments of the primary banks and when instalment are not regularly coming, it subsequently leads to overdues. This shortfall in the sinking fund has to be adjusted from owned fund of the banks. Thus a sizeable portion of owned funds had been locked up in overdues to honour financial commitment on account of borrowed funds. This ultimately affects their ability to issue long-term finances regularly.

- (v) Viability of the credit structure as such has been seriously affected due to poor recoveries and depleted profitability. The long range affect had been that due to low level of advance because of lower loan eligibility, the loan our-standing of several branches of the Bank had progressively declined threatening the future viability of the structure. The impact will be felt for a long time to come as the viability depends on loan outstanding which in turn is directly related to quantum of the loan advanced.
- (vi) Due to lower loan eligibility on account of overdues and application of discipline for lending, the staff at Branch level maintained in relation to work, had become idle and surplus establishemtn cost of the Bank due to idle staff was a financial burden which the banks find incresingly difficult to bear.
- (vii) A apradoxical situation has arisen under which the banks can not lend because of overdues discipline and

recoveries can not be affected without providing fresh loans to needy farmers. In such a situation, neither recovery position improves nor the loan advances take place.

Progress of Recovery

Since the impact of overdues have an adverse affect on the progress of the Bank, we may now examine the recovery progress of U.P. State Cooperative Village Development Bank Ltd. The data pertaining to demand, recovery and overdues has been presented in Table 7.1

Recoveries and overdues position gives an indication for the healthy working of the Bank. Recoveries are the backbone of the Bank on which entire financial structure sustains. Till 1985-86 the recovery position of the Bank used to be not less than 70% to 80% on an average but after this period the recovery position had been downward trend till 1990-91. And the position of recovery further strenghten after this period in succeeding years.

TABLE 7.1
PROGRESS OF LOAN RECOVERY OF THE UTTAR PRADESH STATE
COOPERATIVE VILLAGE DEVELOPMENT BANK LTD.
(During 1960-61 to 2001-2002)

(Rs. In Crores)					
Year	Demand (Dues for Recovery)	Recovery	Overdues	Percentage of Recovery to Demand	percentage of Overdues to Demand
60-61	-	-	-	-	-
65-66	0.45	0.41	0.04	91.20	8.89

70-71	8 48	7 46	1 02	87 92	12 03
75-76	40 78	33 88	6 90	83 07	16 92
80-81	88 31	62 04	26 27	70 25	29 75
85-86	114 37	87 26	27 11	76 30	23 70
90-91	304 13	197 75	106 38	65 02	34 98
91-92	281 85	197 20	84 65	70 00	30 03
92-93	270 48	196 71	73 77	72 72	27 27
93-94	297 05	214 68	82 37	72 27	27 73
94-95	338 76	258 58	80 18	76 33	23 67
95-96	376.88	298 02	78 86	79 10	20 92
96-97	369 33	294 37	74 96	79 71	20 30
97-98	390 58	316 89	73 69	81 13	18 87
98-99	430 69	354 00	76 69	82 19	17 81
99-00	514 74	433 99	80 75	84 31	15 69
00-01	648.68	559 16	89 52	86 20	13 80
01-02	815 61	701 34	114 27	86 00	14 01

Source Data collected from Progress Report provided by General Manager
(Statistics) U P Sahkari Gramin Vikas Bank Ltd , Lucknow

The above table demonstrates that the total demand in the year 1965-66 was Rs. 0.45 Crores against which an amount of Rs. 0.41 Crores has been recovered during this period which constitutes 91.20% of the demand. The demand in the year 1975-76 reached to Rs 40.78 Crores, while the recovery position in the same year was Rs, 33.88 Crores which comprises 83.07% of the demand of the said year. The percentage recovery was declined from 91.20% to 83.07%. This declining process was continued till 1990-91 in which there was a demand of Rs. 304.13 Crores against which only Rs. 197.71 Crores recovered which was only 65.02% of the total demand of that year.

The overall recovery position of the bank have been comfortable after 1990-91. In the year 1991-92, the total demand was Rs. 282.85 Crores against which Rs. 197.20 Crores have been recovered which is 70% of the demand. Further the recovery position of the Bank strengthen in succeeding year. Its recovery position was 72% to 79% between 1992-93 to 1996-97. Keeping its progressive trend of recovery it further reached to 86% in the year 2001-2002 from 81.13% in the year 1997-98.

It can be conclude that the overall recovery position of the Bank is satisfactory because of its progressive trend of recovery.

Coercive Actions for Recovery and Overdues

When persuasive effort fails, coercive action should and must be taken. The Uttar Pradesh Co-operative Land Development Banks Act 1964 which interalia provides that:

(A) Distraint when to be made:⁴

- (1) If any instalment under a mortgage executed in favour of the Bank or any part of such instalment remains unpaid for more than one month from the date on which it falls due, the banking committee may, in addition to any other remedy available to said bank, apply to the Registrar for the recovery of such instalment or part thereof by distraint and sale of the produce of the mortgaged land including standing crops thereon.

4. Information provided by the Publicity Offices, U.P. Sahkari Gramin Vikas Bank Ltd., Lucknow.

- (2) On receipt of such application, the Registrar or any person authorised by him in this behalf in writing may, notwithstanding any thing conyained in the transfer of Property Act, take action in the manner prescribed for the purpose distraining and selling such produce: provides that no distraint shall be made after the expiry of twelve months from the date on which the instalment fell due.
- (3) The Value of the property distrained shall, as nearly as possible, be equal to the total of the amount due, the expenses of the distraint and the cost of the sale and also the amount due on a prior charge, if any, on the property distrained.

(B) Power of Sale When to be Exercised:⁵

- (a) a notice in writing requiring payment of such mortgage money or part has been served upon
 - (i) the mortgagor or each of the mortgagors;
 - (ii) any person who has the knowledge of the Bank any interest inor charge upon the property mortgaged or right to redeem the sam;
 - (iii) any surety for the payment of the mortgage debt or any part thereof: and
 - (iv) any creditor of the mortgagor who has in a suit for the administration of his estate obtained a degree for sale of the mortgaged property;
- (b) default in payment of such mortgage money or part thereof contained beyond three months after such service; and

5. U/S 95(a) / 92(b) of U.P. Cooperative Societies Act 1964.

- (c) the Board has, after hearing the objections, if any, of the mortgagor or any other person mentioned in clause (a), authorised the exercise of such power;
- (4) A sale under this section shall be conducted in such manner as may be prescribed.
- (5) Where any property sold under this act, is in the occupancy of any person creating mortgage or charge or of some person on his behalf, or some person claiming title subsequent to the creation of such mortgage or charge in favour of Uttar Pradesh Co-operative Land Development Bank Ltd., the collector shall on the application of the purchase order delivery to be made by him in his behalf, in possession of the property.

(C) Special Provision for Recovery of certain dues of Agricultural Societies:⁶

- (1) The Registrar may, on an application made by society referred to an agricultural credit society for the recovery of arrears of any loan advanced by it or any instalment thereof to any member and on its furnishing a statement of accounts in respect of such loan and after making such enquiries, if any, as he think fit, issue a certificate for recovery on the amounts due.
- (2) A certificate issued by the Registrar shall be final and conclusive proof of the dues which shall be recoverable as arrears of land revenue.

6. Uttar Pradesh Co-operative Land Development Banks Act, 1964

Generally, the Bank used the coercive action provided under sections of the Uttar Pradesh Co-operative Land Development Bank Act and sections of Uttar Pradesh Cooperative Societies Act to recover the overdues.

Thus, the Bank has power to recover all overdues by taking action against the defaulters by distraint and sale of the produce of mortgage land. Sale of mortgage land itself and also as arrears of land revenue. The U.P. SLDB used later two coercive actions to recover the overdues.

The procedure of sale of mortgage land is time consuming and requires a proclamation of sale which shall be notified by the sale office by advertisement with full details in news paper having circulation in the area. During April to June each year, such notices are published and cover huge portion of news papers which strike the mind in general and of prospective beneficiaries in particular that the most of land belongs to the borrowers of the Bank have been put on auction. Further, the arrest are made under section 95A of the U.P. Cooperative Societies Act, 1964 during the same period and borrowers are kept in lock-up for fourteen days. It is also reported that the borrowers are kept hungry in lock-ups.

Although the above corcive action are provided to the Bank for cent percent recovery but these actions could prove fruitful to the Banks as the overdues where still unrealized. It is because of the influencial defaulters who succeeds in stopping the corcive action undertaken against them. Thus, these actions are only effective on poor borrowers. These actions render, the small/marginal farmers as landless labourers and also discourage

the prospective borrowers to undertake any development programmes out of loan specially from the Bank loans.

The researcher feels that the poor people prefer to die hungry instead of having outstanding loans against them. Often, we find that they pay loans, which were drawn by others but shown falsely and fraudulently in their names.

Hence, it is suggested that the Bank should identify the defaulters individually. If the defaulter is genuine i.e., crops failure due to drought, flood, etc. and incomplete investment, they should be provided with a instalment, and also supplementary finances to such defaulters to make them recoup their future repaying capacity.

In cases of misutilisation of loans of wilful defaulter, if the persuasive efforts fail, the only suitable remedy left is coercive action. However, such action should be taken when it is found that such default is intentional. This action should be take promptly and firmly. It should be tried that loan instalments are recovered out of the sale of the standing crops, sale of land should be made in the rest of the rare cases.

Causes Of Overdues

The following adverse factors have been responsibel in effecting recoveries by the Uttar Pradesh Co-operative Land Development Bank Ltd.

- (i) **Frequent natural Calamities:** The most important reason for overdues of long-term credits has been frequent occurrence of natural calamities viz. Drought, flood, etc.,

which result in the damage of crops. In such condition, the farmers find it difficult to maintain themselves and generally require the help of Government and other to meet their necessities. LDB too often provide relief to the member-borrowers which is either in the form of rescheduling the instalments or postponing the recovery of loans. In the former relief, overdue instalments and interest during the year(s) natural calamities are combined together with the outstanding loans against the member-borrower and this total amount is divided into new instalments in such a way as not to exceed 125 percent of original annual instalment. In the later relief, the borrowers are given the facilities of postponing the recovery of loans instalments for one year and also the opportunity to extend the period of loan, but the interest for the year of natural calamities has to be added in the next instalment. The new instalment proved burdensome to the member-borrower and resulted into defaults in subsequent year, as there were frequent natural calamities which result into rising overdues gradually. However, such reliefs failed to solve the problems of overdues.

- (ii) **Political and Government Interference:** In normal years also the political and Governmental interference are responsible for mounting overdues. Frequent elections of State Legislatures, Panchayats and Parliament also make recovery atmosphere adverse and effect the recovery of the Bank. Generally, the elections are held during the period from January to June of the year when the land development banks starts their recovery operation because of better

liquidity position of farmers during harvest season of Rabi crops. When the recovery operation is at its peak, the Government requisitions jeep belonging to Government for mobilisation of resources for election purposes and the rest vehicles are hired by political parties for election propaganda. As a result, the Banks do not have any vehicle which virtually makes the staff of the Bank immobile. With a view to appease the voters also, it was found that on many occasions, the State Government issue written instructions/order to prevent the staff of the Bank from taking coercive action against the defaulting members and also did not extend required support and assistance in recovery work.

- (iii) **No Provision for Advance Payment of Loans:** In case of LDB there is no provision for making repayment of loan in advance. Whenever a borrower is able to save some money out of his income from any other source he is not allowed to deposit it towards repayment of loan instalment. This money is spent by him or his family members many times for unproductive purposes.
- (iv) **Misunderstanding Among the Farmers:** there is a misunderstanding among the cultivators that the Bank loans are Government loans and they are given as an aid to the farmers. The reason for this misunderstanding is that the Bank loans are mostly channelised through Government machinery. This has vitiated the atmosphere of repayment and in certain cases, cultivators resist the payment.

(v) **Misutilisation of Loans:** The farmer is not only a farmer; he is also a member of the community and head of the family when he has got certain obligations to fulfill. He has no saving to meet such social obligations. Neither the credit society nor LDB advance loans to him to meet them. Here arises a problem before farmers to choose either to use the loan to meet this social obligation or to use the loan for that purpose for which it was advanced. Many of them forget their moral obligations to use the purpose for which it was advanced and make use of it to meet his immediate social obligations. This leads to non-repayment of the loan. First, if the loan is not adequate to meet his immediate social obligations. This leads to non-repayment of the loan. Secondly, if the loan is not adequate to meet the purpose for which it was demanded, the borrowers use it for some other purpose and this results in the failure of repayment of loan. Thirdly untimely credit also results in misuse. It is said that credit delayed is credit denied. Thus these reasons result in non-repayment of loans.

(vi) **The Wilful Defaults:**

The main factors responsible for wilful defaults are:

- (a) Where the loan has been managed by offering inferior landing mortgage or non-genuine mortgage, the borrower deliberately defaults and does not care about the repayment.
- (b) Often big landholding borrowers shirk the repayment knowing that they have patronage of political leaders /Government officers and will be able to manage to escape

from it. They pressurise the recovery staff directly or indirectly to the recovery.

- (c) The loanees not in general neglect payment as they know that none will turn up to purchase their land even though the proceeding of sale of land has been started by the Bank.

(vii) Complicated and Time Taking Procedure for Recovery:

To recover the loan from defaulters, the coercive action is taken by the Bank under the procedure laid down for recovery. This is a complicated and time consuming procedure. For example, powers (i) to issue citation letter to defaulters (ii) attachment of their property, and (iii) land auction etc. are vested in the Assistant Registrar, Co-operative societies, while the power of confirmation of land auction is vested in the Head Office of the Bank. In some cases, it was noted that this confirmation from Head Office was not received and the property acquired by the recovery officers for non-payment of instalment had to be returned to the concerned borrowers. This removes all fear of losing land or prestige from the minds of borrowers and they develop indifferent attitude towards repayment of loans which has given a momentum to rising overdues in the U.P. state cooperative Village Development Bank Ltd.

(viii) Lack of Supervision of Loans:

The State Government are only keen for pumping more and more of institutional credit to the farmers on an easy terms. The Government staff is only interested in the completion of distribution of loan-targets but they never bother in supervision, follow-up and recovery of loans. As

against, the machinery to verify utilisation of loan and to take up follow-up measures was found to be inadequate in the Bank leading to misutilisation and diversion of loans.

Due to non-identification of such cases in due time, the Bank could neither take corrective action against misutilization of loans nor initiate coercive action against such defaulters. Consequently, this deficiency of the Bank motivated the loanees for non-payment of loans which helped in mounting up the overdues.

(ix) **Lack of Co-ordination among Lending Institutions:** There are a number of agencies providing agriculture finance in a variety of forms. Short-term loan are provided by primary credit societies, rural banks and commercial banks; fertilizers and seeds are distributed by the agricultural department. Taccavi loans are advanced by revenue department; co-operative marketing societies provide production and pledge loans; block authorities and social welfare board too distribute loans in one or the other. The terms of loans, rate of interest and period of repayment differ from agency, but the recovery is dependent on the farmer's crop yield which is made at the time of harvest. The agency which approaches earlier realises its loans and the repayment to remaining agencies is deferred. Thus, there is competition among the financial institutions instead of an effective co-ordination which is essential for sound credit system. Consequently the overdues have started mounting up.

- (x) **Target Oriental Loan Distribution:** The agencies providing the agriculture finance have to distribute the loan during the year as the target is already fixed. Generally, the loan distribution is slow during the early months of the year, but as the year is about to close, the activities of loan distribution are geared up. It is tried to complete the target of loan distribution to the farmers in hurry and hence, lapses are bound to occur. Moreover, it is very difficult to supervise the advance, test-checking etc., in such a short period of time. These conditions encourage malpractice, which results in the distribution of loans to non-genuine persons leads to misutilisation of loans. Sometimes the same person are chosen for distribution of loans by the different agencies which may over burden them making repayment beyond their capacity. Ultimately, they became defaulters and overdues start mounting up.
- (xi) **Indifferent Attitude of Bank Employees:** The factor responsible for indifferent attitudes of Bank employee are, as under: Firstly, the recovery tour has become hazardous to the life of touring staff members of Banks, as the Bank has no vehicle for this purpose. Secondly, the interference by the local leaders to defend the defaulters from coercive action taken by the Bank staff. Thirdly, sometimes, the Banks staff had to face the assault and attack because of the lack of security measures. These actions demoralize the employee making them indifferent. This attitude when continues to prevail among the staff for a long time, effect the recovery and result in the mounting up of the overdues.

(xii) **Lack of Remunerative Support Price and Marketing Facilities:** While inflationary trend continues in the economy pushing up the costs of investment and production in the farm sectors, there is no remunerative support price to farm produce. This position has added to increase the cost of living standard as well. This adversely affects the farmers economy and their repaying capacity. Marketing facilities are also found to be inadequate for realising remunerative returns to the marketable surplus of farm produce. The adverse terms of trade in the farm sector have been identified as one of the major causes of overdues.

(xiii) **Due Date of Instalment not suited to the Borrower:** The U.P. state co-operative village Development Bank Ltd. has fixed the due date of instalment for repayment of loans either on 1st Dec. after expiry of 12 or 18 months period for disbursement of last instalment as case may be. Finally, the repayment of loans come out of the sale of crops. If the due date of instalment has been fixed which does not coincide with the sale of crops this makes the farmer defaulter and penal interest is charged. The repeated defaults make it burdensome to the farmers and results into overdues.

In fine overdues in the Uttar Pradesh state Co-operative village development Bank Ltd. are caused due to a variety of factors as many of them are outside the control and purview of the Bank. While the Bank should take action and corrective measures for ensuring prompt recoveries and to avoid overdues in future, there should also be favourable conditions created by the State

Government. To be specific, the following measures are necessary to ensure satisfactory and prompt recoveries and avoid future overdues.

- (1) The due date (either 1st April or 1st October) of the instalment for repayment of loan should be so fixed by the Bank, with the consent of the borrower member, that it coincides with the harvesting of major crops, instead of fixing due date of instalment after expiry of 12 or 18 months from the advancement of the last instalment.
- (2) The Bank postpones the realisation of overdues on account of natural calamities extend the loan period for one year more, as a measure of relief to and rehabilitation of defaulters. But the interest for the period of natural calamities to the next instalment puts an extra financial burden on the borrowers. It is desirable that interest for the period of natural calamities should be exempted and loss incurred by the Bank should be met out from the stabilisation fund or other funds created for this purpose.
- (3) The Bank should encourage cultivators in making advance repayment or large re-payment towards loans when ever they have spare amount out of their annual income. The Bank in such cases should provide rebate on the interest of the loans.
- (4) The schedule of repayment as well as tenure of loan should be based on the repayment capacity of the borrower. The repaying capacity calculated by the Bank should reflect the impact of development loan on the borrowers economy over a period of time. This can be done with the help of Cost-

Benefit Analysis. Where the annual instalment fixed is found to be high relatively to the borrower's economic standing, he may be given the benefit of spreading the repayment over a longer period. Where the annual instalment is low in relation to the repayment capacity calculated on proper scientific basis, the period of repayment should be reduced.

- (5) Due care in the scrutiny of title over the land and its valuation should be exercised, mortgage of barren or inferior lands or of public utility should be strictly guarded off.
- (6) With a view to check the misutilisation of loans, any officer like branch manager/district managers should verify, say 5 percent of loan cases. In such cases, Head Office should also have enough machinery to take surprise check of district offices/branches of the Bank.
- (7) In order to have some amount of genuineness to loan-documents and to make the certifying authorities careful, the bye-laws of the Bank may be amended so as to enable the Banks to recover the entire amount of loan from certifying authority, in case misutilisation of loan is proved at any stage. This provision should apply equally to Bankpersonnel, as well as, to those outside its administrative control.
- (8) To initiate coercive action against the defaulters in Uttar Pradesh the Bank has to seek the approval of Assistant Registrar of Co-operative Societies who has power to (i) issue citation letter to the defaulters, (ii) attachment of their property, (iii) land auction etc. Under the U.P. Co-operative Societies Act. this approval sometimes is so much delayed that borrowers get the impressions that the Bank officers

have no power to recover the loan. The power of confirmation of land auction is vested in the Head Office.

In the State of Maharashtra, the Bank officers have been delegated the powers to recover the dues through coercive measures which helped to get speedy recovery. In Uttar Pradesh too hasten the recovery, the Regional Office/District office may be more effective to hasten the recover if the power of Assistant Registrar / Dy. Registrar of Co-operative Societies is vested in the Regional Manager/District Managers.

- (9) The system of recovery should be made free from the pulls and pressures of big borrowers, and their well wishers. Liberal treatment and postponement of recovery should be done away with, as it has multiplier effect.
- (10) As the Banks are considerably handicapped for want of bidders in auction of land mortgage by the borrowers, the State Government should purchase the land in auction for the settlement of the Bank's claims. The Government after taking effective possession either dispose of the land by sale or distribute them to identified target-groups like small/marginal farmers, as already recommended by CRAFICARD. Or the Government should set up a State farming corporation vested with authority to purchase lands in auction and take possession of lands and immovable properties as recommended by the RBI stude team overdues of short-term credit institution.
- (11) As a matter of policy the responsibility of enforcing the proper distribution, utilisation of credit and follow-up measures, including continues touch with the borrowers until

full repayment of the loan should be entrusted to a single agency instead of a heterogeneous groups of State officials as is being done at present in the Bank. Since the Bank have no administrative control over the activities of State official, they can not expect as much seriousness from them as from its own staff.

The Bank should make alternative arrangement for the distribution and the utilisation certificate issued by Bank's own staff. For this purpose a supervisory cell is to be constituted in each branch under the supervision of field officer, Involvement of its staff will also remove the misunderstanding among the borrowers, that the land development bank loan is a Government loan. The RBI has also requested that CLDBs should strengthen their supervision machinery for the proposed of verification of utilisation of loans.⁷

- (12) The experience shows that recovery tour has become hazardous to the life of touring staff members of the Bank in absence of their own vehicles, as well as of protection from assaults and attacks. For the purpose of speedy recovery of loans, the recovery should be treated as a full time specialised work, attended by the staff exclusively meant for it under the supervision of district manager, and a jeep should also be provided at district level.

For practical reasons, it was not always possible to for recovery with police party and such protection was also not always readily available. The State Government may, therefore, consider

7. Report of the Committee on Co-operative Land Development Banks, RBI, Bombay, 1995, p. 240

to declare Bank staff as public servants for the purpose of protection against attack and assaults in the discharge of duty and also provide protection of police force in recovery work, whenever, such demands are made by the Banks.

- (13) The State Government should adopt a policy of positive assistance to the recovery work and involve the machinery of co-operative and revenue department fully in this task. The State Government should desist and on the contrary help to create favourable conditions for recovery. The Government should also give due recognition to these officers for good recovery rather than harassing the Bank staff for coercive action initiated against wilful defaulters or big borrowers who have direct approach with the Government Officers/Ministers.
- (14) There should be a provision for case by case study of defaulters and provisions to write-off irrecoverable amount in genuine cases when they are no longer in a position to repay loans due to adverse economic conditions or because of infructure investment. In case of wilful and influential defaulters, the coercive legal measures should be adopted without delay so that the coercive action would have salutary impact of creating the fear on the other defaulters about losing their land in the event of non-payment of dues and overdues.
- (15) The influencing effect, appeal and persuasive efforts of non-officials will have greater impact on the member-defaulters than officials and this positive factor should be fully exploited by involving them in the task of recoveries.

- (16) There should be an effective co-ordination among the agencies, which are meeting the short-term, medium-term and long-term credit requirements of the farmers by the co-operative agencies on the one hand and Rural and Commercial Banks on the other, which is essential for a sound credit. This problem can be tackled by streamlining the policies and procedures of financing and exchanging of information among the various lending agencies in the area. This may also help to avoid the multiplication of loan which ultimately enhances the problem in recovery of loans.
- (17) The borrower should be properly exhorted and educated at the time of advance and afterwards to repay the loan on time, failing which he may be subjected to severe consequences.
- (18) A strong credit market linkage would be the best solution for guaranteed recoveries. It will also solve the problem of establishing contacts with growing number of defaulters and taking coercive measures.

In the State of Maharashtra, under a specific provision in the Co-operative Societies Act, the Bank's dues were recoverable from sale proceeds of agriculture commodities at the level of market yards and processing units like sugar factories.⁸ There is no such provision or arrangement of credit marketing linkage in

8. A Study of Credit Market Linkage for Investment Credit through LDB in Maharashtra State National Co-operative Land Development Bank Feb. Bomby, 1984. P. 156

Uttar Pradesh. The provision of the Maharashtra Act should be suitably incorporated in the U.P. Co-operative Act and arrangement be made to recover dues of the Bank at the level of market-yards and processing units of agricultural commodities from sale proceeds of borrowers.

Chapter - VIII

*Role of U.P. State Cooperative Village
Development Bank Ltd. in Agricultural
Development of Uttar Pradesh*

CHAPTER – VIII

ROLE OF U. P. STATE COOPERATIVE VILLAGE DEVELOPMENT BANK LTD. IN AGRICULTURAL DEVELOPMENT OF UTTAR PRADESH.

The planning in Uttar Pradesh has two-fold objective, i.e., increasing production and social justice, which demand improvements in the levels of living of small farmers and weaker sections of the society. This is possible only by eradication of poverty. The Government is making all out efforts to reduce the number of persons below the poverty line. Our Five Year plans contain necessary provisions to ameliorate the economic upliftment of the weaker sections in the society, bridge the widening gap between rich and poor, and reduce the regional imbalances.

In Uttar Pradesh agriculture is the primary sector and has a major role to play in increasing production and increasing the quality of life in rural areas where about 76 per cent of the State's population lives.¹ The State has done well in the field of agricultural production in the past, but much remains to be done particularly in the context of rapid growth of population which threatens to outpace the production. The substantial results in the production depends on the assured rainfall or irrigation facilities

1. Digest of Statistics, Directorate of Economics and Statistics, Planning and Development Department, Government of Uttar Pradesh, 2000.

coupled with modern techniques of agriculture like agricultural machinery, fertilizer, seeds etc. the capital formation being at low ebb, our cultivators are unable to finance agricultural development on their own accord. Here comes the role of the institutional agencies specially land development banks which are entitled to equip the farmers with capital weapon so that they may reap the benefits agricultural development.

In the initial stages of planning, it was thought that the benefits of development would trickle down to the poorest of poor in the society, but somehow this did not happen. In the matter of institutional finances for agriculture benefits of credit in the past has gone mostly to the so-called well to do and big farmers mainly due to the conservative method of advancing loans against security as also cumbersome and lengthy loaning procedures, which usually dissuade small farmers from taking benefits. Another limitation has been that the percentage of small farmers in relation to total land-holding invariably high in most of Districts, and the total land held by them is invariably small. Since the land held by farmers other than small farmers is considerably large, it is natural that influential persons avail a major portion of credit provided by the Bank.

In order to make some perceptible dent in agricultural development and also to raise the levels of living of small and marginal farmers, it is extremely necessary that the Bank fulfils the requirements of all types of farmers. Small and marginal farmers who constitute the majority of farming population must be able to take advantage of improved methods of farming. The economic condition of these farmers being weak, they are not in a

position to adopt new and developed methods of agricultural production. They are in need of production credit as well as investment credit. Unless these farmers are helped and encouraged by some outside agencies in getting the necessary financial assistance, the possibility of increasing the productivity of their land is almost nil. In short, these farmers, of their own, are likely to remain as they are. In order to have some notable impact on agricultural production in general, the Land Development Banks which arrange for investment credit have come forward and extended their financial support to such farmers by giving incentives in the form of liberalization of some conditions, particularly in respect of security, interest rate, period of repayment of loan, etc.

It is, thus, clear that unless a policy is adopted to provide more and more facilities to small farmers and weaker section of the society and also concerted efforts are made in that direction, the national objective could not be achieved. A major breakthrough was made during the Fourth Five Year Plan when the Government gave preferential treatment to the small farmers and other weaker section of the society. Since then flow of institutional credit has continued in greater amount to the small and marginal farmers and other weaker section of the society. The Ninth Five Year Plan (1997-98 to 2001-02) declared its emphasis on reduction of unemployment in rural areas and under-employment of the workers engaged in small farm sector which

constitute the crucial component of rural unemployment.² It is therefore, essential that small farm sector should adopt modern technology not only to increase agricultural production but also to secure higher level of employment. Admittedly, institutional credit acts as a catalyst in development process. Although institutional credit agencies are trying their utmost in providing credit for agricultural development their achievement still falls short of the total needs. For this purpose special programme, viz., SFDA, MFCA, (now both replaced by IRDP) IRDP, DPAP, etc., were designed to bridge this shortfall. It was also felt that there is a certain section of the society, which requires specific and concentrated attention. In order to focus the benefits in an integrated manner, programmes for the scheduled castes, scheduled tribes and backward classes were also formulated under special component plan and tribal sub-plan. These plans envisage raising 50 percent of the scheduled castes and schedule tribes families above the poverty line during the Ninth Plan.³

Financial allocation in support of the various special programmes under the Plan were made to build up the institutions, as well as providing direct assistance to the small farmers and others in the form of subsidy, etc. The financing institution including the land development banks were expected to involve themselves in implementing such programmes. During the Ninth Five Year Plan period (1997-98 to 2001-02), a programme of Rs. 19,100 crores is envisaged for the LDBs. A major portion of this

2. IX Five Year Plan, National Co-operative Agriculture and Rural Development Bank's Federation Ltd., Bombay, p.15,16.

3. Ibid, p. 18

target has been expected to be channelized for the benefit of small farmers, marginal farmers and other weaker sections under various special lending and normal lending programmes of the banks. The Integrated Rural Development Programme (IRDP) which has been introduced, is expected to cover the entire State; and naturally, the land development banks will have to play a definite role in the matter of term loans for development of agriculture, many other subsidiary occupations for increasing production, creating employment potential and enabling farmers and rural poor to supplement their incomes.⁴

With the above background, an attempt has been made in this Chapter to analyse the role played by the Uttar Pradesh State Cooperative Village Development Bank Ltd. For small/marginal farmers and other weaker sections of the society in agricultural development.

Loan to Marginal/Small Farmers

Before Reviewing the performance of U.P. State Cooperative Village Development Bank Ltd. in financing marginal/small farmer for agricultural purposes, it is relevant to state here the concept of small farmers. A small farmers has been defined, as per Agricultural Finance Corporation glossary as "A farmer who is potentially viable. He is having just enough land which would enable him to become a surplus producer with the adoption of new technology. For adopting new technology he requires special assistance for procuring necessary inputs including credit. Central Government has not laid down any uniform definition in terms of size of holdings for inclusion of farmers in SFDA schemes. Each

4. IX Five Year Plan, op.cit, p. 23

project implementation agency is permitted to determine the class of farmers eligible for assistance in the project area. This definition was adopted during the Fourth Five Year Plan. From the Fifth Five Year Plan farmers having below 5 acres or those having 2.5 acres or less of class I irrigated land as defined in the land ceiling legislation of the State will be treated as small farmers”⁵

“A Marginal Farmer’ is the farmer with a holding of size not more than one hectare (2.5 acres). The limit is applicable generally for an irrigated area. In case of other areas, this limit may be raised taking into account the availability of irrigation facilities, the soil type, the cropping pattern and other relevant factors. This is the definition adopted for the purpose of inclusion of farmers under MFAL programme, during fourth plan period. From the fifth plan, those farmers owning lands upto 2.5 acres or 1.2 acres or less of class I irrigated as defined in land ceiling legislation of the State, will be considered as marginal farmers.”⁶ NABARD has adopted a new definition of small farmers and, according to them a small farmer shall mean any farmer cultivating land providing a pre-development net return to family resources to such farmers and his family not exceeding Rs. 3500 at 1978-79 (June-July) prices.

For the purpose of determining the said net return the following criteria shall apply:-⁷

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5. Agricultural Finance Corporation Ltd., Glossary of Terms in Agricultural Finance. Bombay, 1975, p. 70
 6. Ibid, p. 67
 7. Agricultural Refinance & Development Corporation-Circular No. ARDC. Plan 9/PG-34-80/81 dated November 25, 1980.

- (b) 'Land' shall include all land actually cultivated by the farmer notwithstanding the fact that ownership of such land may vest in one or more persons, and
- (c) 'Net return to family resources' shall mean gross family income from land, less actually incurred including cash value of farmer's own inputs including seed, fertilizer, hired human labour, hired bullock labour, feed consumed by family bullock, irrigation charges, land revenue, interest or crop loan and rent on leased land".

The above income ceiling has been further translated into acreage ceiling according to type of land, crops grown, etc. For different areas, such ceiling is again prescribed for rain field land and irrigated land. This exercise done for different States has considerably made the task easier in testifying, the small farmers in relation to standardised acreage. The ceiling, thus, fixed varies from 7.50 acres to 10 acres rain field and from 6.25 acres to 7.70 acres irrigated land or different districts of Uttar Pradesh.

The most acceptable definition of small farmers is one approved by the planning commission for SFDAs and MFLAs (now IRDP) programme, i.e., those cultivating between 2.5 and 5.0 acres of land. Those cultivating less than 2.5 acres are included in the category of marginal farmers. The Land Development Banks, however, do not distinguish between the small and marginal farmers. All farmers cultivating 5 acres or less are covered by the category of small farmers for purpose of the 'ordinary loaning programme' of land development bank.

The National Co-operative Land Development Banks Federation has also asked its member banks to compile the figure of advance under the category below 2.5 acres, 3.5 to 5.0 acres etc.⁸ In Uttar Pradesh, the U.P. State Cooperative Village Development Bank Ltd. has instructed to treat farmers with land holding upto 2 hectares (i.e. 5 acres) as the small farmers. Thus, the cultivators holding land below 2.5 acres and between 2.5 acres to 5 acres have been adopted as marginal farmers and small farmer respectively for the purpose of the study.

Coverage of Small Farmers by U.P. State Cooperative Village Development Bank Ltd.

The U.P. State Cooperative Village Development Bank Ltd. as such has no separate policy in the matter of advancing credit to the small farmers etc., and they follow the policies stipulated for them by the Government, Reserve Bank of India, NABARD and also National Co-operative Land Development Banks Federation. The Reserve Bank of India has introduced a scheme in April 1971 to uplift the sectorial imbalances under which the LDBs were required to ensure at least 20 percent of their annual credit disbursements to the small farmers.⁹

It was envisaged by NABARD under the various credit projects assisted by the World Bank and other International Agencies that 50 percent of the total credit provided by the credit

8. Singh, A., Financing of Small Farmers (A Study of Long-Term Credit), Co-operative Training College, Lucknow, 1989, p. 132

9. Report of the Study Team on overdues in Co-operative Credit Structure, RBI, 1974, p. 58

agencies for agriculture including LDBs should go for small farmers and marginal farmers. This proportion was enhanced to 60 percent of the total disbursement under NABARD – III Credit Project. However, the National Co-operative Land Development Banks Federation decided to increase credit disbursement to small farmers to the level of 75 percent of annual advances in its national seminar held in 1981. The federation member banks were advised to aim at reaching this target during the course of coming years.

The Land Development Banks including U.P. State Cooperative Village Development Bank Ltd. have adopted the policy prescribed for them and have also made satisfactory progress in stepping up their advances to small farmers during the past years.

Sanction of loan to Farmers:-

The performance of the Bank in agricultural development is further reflected through an analysis of the data concerning sanction of loans to the farmers.

The table 9.1 shows the loans sanctioned to the farmers by the Bank since its inception to the end of March 2002. The table reveals that in the year 1960-61 when the Bank started functioning, it sanctioned loan of Rs. 0.03 crore to the farmers which rose to Rs.5.97 crore in the year 1965-66 registering a tremendous growth of 19,800 percent. The rate of growth of the amount of loans remained modest. Although the quantum of loans increased in subsequent years. The Bank provided loans of Rs. 23.17 crore in 1975-76, Rs. 74.78 crore in 85-86 and Rs. 153.29

TABLE - 8.1

**Loans Sanctioned to the Farmers by
Uttar Pradesh State Cooperative Village Bank Ltd.**

(1960-61 to 2001-2002)

<i>(Rs. in Crores)</i>		
Year	Loan Sanctioned	Percentage of Increase/Decrease
1960-61	0.03	-
1965-66	5.97	19800.00
1970-71	21.62	262.14
1975-76	23.17	7.17
1980-81	52.59	126.97
1985-86	74.78	42.19
1990-91	152.29	103.65
1991-92	180.95	18.82
1992-93	198.97	9.96
1993-94	211.36	6.23
1994-95	257.06	21.62
1995-96	294.28	14.48
1996-97	365.71	24.27
1997-98	416.20	13.81
1998-99	512.16	23.06
99-2000	580.97	13.44
2000-01	661.64	13.89
2001-02	680.15	2.80

Source: Compiled on the basis of progress at a glance, 37th Annual Report, 2001-2002 Uttar Pradesh Sahkari Gram Vikas Bank Ltd., Lucknow.

crore in 1990-91 which show an increase of 7.17 percent, 42.19 percent and 103.65 percent respectively. The Bank has recorded a continuous increase in sanctioning of loan to the farmers, although the increase was not uniform. Keeping its increasing pace in sanctioning of loan the Bank has disbursed Rs. 294.28 crore in the year 1995-96 and 416.20 crore in 1997-98, Rs. 580.97 crore in 1999-2000 recording an increase of 14.48 percent and 13.81 percent, 13.44 percent respectively it has given Rs 661.64 crore in 2000-2001 and Rs 680.5 crore upto the end of 31st March 2002 recording an increase of 13.89 and 2.80 percent compared to the preceding years.

From the analysis of table 9.1 it can be said that the Bank has good performance in sanctioning of loan to the farmers which has ultimately contributed to the development of agriculture of the State.

Progress in Membership

The membership of the Bank also increased speedily over the years. Only those persons are given the membership of the Bank who have applied for loan and the Bank has granted the loan to them. So the increase/ decrease in membership reflects the overall performance of the Bank. From table 9.2 it can be observed that the Bank started its business in 1960-61, had 604 persons as its members. But within a short period of five years it rose to 66248 persons, recording a tremendous increase in percentage terms. The membership rose to 346154 members in 1970-71, 706902 members in 1975-76 and 1137185 members in 1980-81 recording an

TABLE - 8.2

**Progress in Membership of the Bank
(1960-61 to 2001-2002)**

Year	No. of Members	Percentage of Increase/Decrease
1960-61	604	-
1965-66	66248	10868.21
1970-71	346154	422.51
1975-76	706902	104.22
1980-81	1137185	60.87
1985-86	1529960	34.54
1990-91	2241924	46.53
1991-92	2440909	8.88
1992-93	2623921	7.50
1993-94	2803715	6.85
1994-95	2923406	4.27
1995-96	3070381	5.03
1996-97	3219577	4.86
1997-98	3349556	4.04
1998-99	3606275	7.66
99-2000	3847362	6.69
2000-01	4024559	4.61
2001-02	4205528	4.50

Source Compiled on the basis of progress at a glance, 37th Annual Report, 2001-2002 Uttar Pradesh Sahkari Gram Vikas Bank Ltd , Lucknow

increase of 422.51, 104.22 and 60 .86 percent respectively. Though, the progress in membership was not uniform, it was having an increasing and decreasing trend, but overall membership had increases, which show the popularity of the Bank. Keeping its pace of progress in membership it registered 1529960 members in 1985-86, 2241924 members in 1990-91, which was 34.50 and 46.53 percent increase respectively.

After 1991 the progress in membership became slow, it was between 4.50 percent to 8.87 percent till the end of March 2002. Although the progress was slow but the number of members is increasing every year. The total membership of the Bank in the year 99-2000 was 3847362, in 2000-2001, 4024559 and at the end of financial year 2001-2002 it stood at 4205528 members recording an increase of 6.69, 4.61 and 4.50 per cent respectively.

From the above analysis of the table 9.2 the conclusion can be drawn that the increasing trend of membership of the Banks shows the expansion of its role in agricultural development of the State.

Branch Expansion of the Bank:-

Branch expansion in any organisation take place when its business expands. Uttar Pradesh State Cooperative Village Development Bank Ltd. has expanded its branch regularly. The Bank started its function with only thirty branches in 1960-61, which gradually increased to 115 in 1965-66 recording a tremendous increase of 283.33 percent. Its branches were 185 in 1970-71, 210 in 1975-76, 247 in the year 1980-81 and 276 at the

TABLE 8.3
Progress in Branches of the Bank
(1960-61 to 2001-2002)

<i>Year</i>	<i>No. of Branches</i>	<i>Percentage of Increase/Decrease</i>
1960-61	30	-
1965-66	115	283.33
1970-71	185	60.87
1975-76	210	13.51
1980-81	247	17.62
1985-86	265	7.29
1990-91	276	4.15
1991-92	276	0.00
1992-93	287	3.99
1993-94	287	0.00
1994-95	288	0.35
1995-96	298	3.47
1996-97	306	2.68
1997-98	313	2.29
1998-99	313	0.00
99-2000	321	2.56
2000-01	321	0.00
2001-02	334	4.05

Source: Compiled on the basis of progress at a glance, 36th Annual Report
 Uttar Pradesh Sahkari Gram Vikas Bank Ltd., Lucknow.

end of 1990-91 recording an increase of 13.51, 17.62 and 7.29, 4.15 percent respectively. The progress of branches were not uniform every year, there have been up and down trend in branch expansion, but it records a regular growth. Upto the year 1980-81, the percentage increase of branches were more than 13 percent every year. But after 1980-81 and upto the end of financial year 2001-2002 the Bank was having percentage increase between 2 to 7 percent except 1991-92, 1993-94 and 1998-99 when there was no branch expansion. There were 276 branches in 1991-92, which rose to 287, 288 and 298 in the year. 92-93, 94-95 and 95-96 respectively recording the percentage increase of 3.99 percent in 1992-93, 0.35 percent in 1994-95 and 3.47 percent in the year 1995-96. The Bank was having 313 branches in 1998-99 and the number reached to 321 branches in 1999-2000, which is 2.50 percent more than preceding year. At the end of the financial year 2001-2002 the Bank has 334 branches in total which is 4.50 percent more than the preceding year.

From the analysis of above table a conclusion can be drawn that there has been considerable expansion of Bank in rural areas, though an ever increasing network of branches. The branch expansion has purveyed financial help to large number of farmers which in turn contributed to the development of agriculture and consequently the State as a whole.

Concessions Provided to Small/Marginal Farmers by U.P. State Cooperative Village Development Bank Ltd.

Keeping in view the handicaps of the small farmers, the land development banks have extended certain concessions in respect of

advancing loans to small/marginal farmers from time to time either on their own policy decisions or as a result of advice/instructions given by agencies like R.B.I., NABARD and the Government. The concessions extended to the marginal and small farmers by the U.P. State Cooperative Village Development Bank Ltd. are briefly enumerated. as under:-¹⁰

- (1) **Rate of Interest:** Generally small/marginal farmers required low amount of loan, so the rate of interest is also low as compared to high rate it is 13% upto Rs. 25,000/- and 14% upto Rs. 2 Lacs and above Rs. 2 Lacs it is 15%.
- (2) **Repayment Period:** It is well known fact that the small and marginal farmers have lower repayment capacity than the big farmers due to their small holdings and the poor economic condition. It is, therefore, recognised that the small farmers need a longer repayment period for the term loan obtained. In general, the loans for construction of wells, tubewells & installation of pumpsets, etc. are given by the U.P. State Cooperative Village Development Bank Ltd. for nine years, but in case of small farmers, the repayment period can be increased upto 15 years consistent with the lower level of repayment capacity.
- (3) **Down Payment or Margin Money:** As a matter of policy, no institutional credit is made available for investment in

10. By the courtesy of General Manager (Loan & Recovery) U.P. State Sahkari Gram Vikas Bank Ltd., Lucknow.

agriculture without the borrower having some stake by way of contribution towards a portion of unit cost of proposed development. At present, the down payment or margin money to be invested by small farmer is lower than that of other farmers. It is 5 percent in the case of small farmers and 15 percent in the case of other farmers. In other words, the credit is made available to the extent of 95 percent of the unit cost of investment and rest 5 percent of unit cost of investment shall be made by the beneficiaries of small/marginal farmers category out of their own resources against 15 percent in case of other frames.

- (4) **Contribution towards Share Capital:** As a general rule, the prospective borrower has to become a member of the Bank and for this purpose, he has to purchase the shares of the Bank. Generally, LDBs charges the share money on the basis of percentage of loan advanced. The percentage of share money differs from state to state. In Uttar Pradesh the U.P. State Cooperative Village Development Bank Ltd. charges 5 percent of the loan as share money from the borrowers, whereas it is 3 percent in the case of small and marginal farmers. This enables them to avail themselves of loan from the Bank. Moreover, the farmers belonging to the scheduled caste/tribes who are not in a position to deposit the share money, have been provided interest free loan for purchase of shares of the Bank.
- (5) **Loan Eligibility:** The loan advanced by the banks to the farmers are secured by the unencumbered first mortgage of

the land of the borrower. The U.P. State Cooperative Village Development Bank Ltd. advances the loans to the extent of 50 percent of the land valuation after proposed development. In case of small farmer, if the land valuation is low, the loan eligibility is determined to the extent of 75 percent of the value of land.

- (6) **Subsidy by the Government:** LDB loaning has been coordinated with subsidies available under the IRDP. The small farmers are eligible to subsidy @ 25 percent of the cost of investment. Marginal farmers are eligible to a subsidy @ $33\frac{1}{3}$ percent and weaker section farmers can get subsidy to the extent of 50 percent of the total cost of development subject to the maximum of Rs. 5,000.
- (7) The expenses for procuring non-encumbrance certificate by the advocate is borne by the bank.
- (8) All farmers includes small/marginal farmers are given 1 percent rebate in interest on timely deposit of their installment.
- (9) Small/marginal farmers are required to deposit evaluation fee @ 0.5 percent against the normal rate of 1 percent. The maximum evaluation fee is Rs. 100/- only.

Diversification Programmes undertaken by Uttar Pradesh State Cooperative Village Development Bank Ltd.

The following diversified schemes have been undertaken by U.P. State Cooperative Village Development Bank Ltd. to provide the supplementary income and employment avenues to the

small/marginal farmers and other weaker sections of the rural community of the State. A whopping amount of Rs. 377.39 crores has been distributed through these schemes in the year 2001-2002 to 124051 members. From its inception to 31st March 2002, Rs.1,728.94. crores have been distributed to 894289 persons under diversified scheme which is 30.31 percent of the total credit disbursed till 31st March, 2002.*

(A) Dairy Development Scheme:— The Bank has introduced the dairy development programme in the State. Loan is provided for purchase of two cows/buffaloes or more to small/marginal farmers for adopting the dairy farming as secondary occupation. The loan amount for 10 better Hybrid cow (Two) is Rs. 21,530/- and for two milk cattle is Rs.23,750/-, the loan is repayable in five years. The total loan of Rs.89,970.68 has been provided by the Bank for dairy development to 367747 persons by the end of March 2002. Among these loans Rs.224.02 crores has been provided to its 66578 persons in the year 2001-2002.

(B) Dunlop Cart: This scheme was started to facilitate the farmers to carry their agricultural produce up to the market and fertilizers and seeds to their fields. The Bank has provided Rs.41.47 crores to 26571 persons in the year 2001-2002, which is 6.10 percent of the total credit provided in this year. The Bank provides Rs.7,300 to Rs.9,300 for the

* By the courtesy of General Mahager (Loan) U.P. State Sahkari Vikas Bank, Lucknow.

purchase of Dunlop Cart to each members who make request for it. Since its beginning to the end of March, 2002, the bank has disbursed Rs.352.95.50 crores to its 316163 members which is 6.19 percent of the total credit provided by the end of March, 2002.

- (C) **Animal Husbandry:** Animal husbandry is the main source of income to the small/marginal farmers. Keeping this in mind the Bank has started this scheme. The Bank has disbursed total of Rs.153.44 crores to its 86805 members till the end of March, 2002 which is 2.69 percent of total credit disbursed till above date. In the year 2001-2002, the Bank has provided Rs.28.76 crores to 11818 members under this scheme which is 4.23 percent of the total credit disbursed in this year.
- (D) **Poultry:** Poultry is the best source of income for these farmers who are having small amount of capital. Keeping this view the Bank has started this scheme. The Bank provides Rs.14,100 to Rs.17,100 for one hundred layer of poultry. For the year 2001-2002 the Bank has disbursed Rs.9.57 crores to 2573 members which is 1.41 per cent of the total credit provided in this year by the Bank. Under this scheme the Bank has disbursed a total of Rs.3,214.16 lacs to 15154 members by the end of March 2002 since its beginning which is 0.56 percent of the total credit disbursed till the above date.

(E) **Fisheries:** Fisheries development scheme approved by the NABARD has been launched by the Bank. The Bank provides up to Rs.41,700 for the development of ponds and inputs. These loans are repayable in five years. In the year 2001-2002, the bank has provided Rs.3.66 crores to its 707 members which is 0.54 percent of the total amount disbursed under this scheme. By the end of March 2002 since its beginning, the Bank has provided a total of Rs.21.39 crores to 7581 members which is 0.37 percent of the total credit provided by the Bank.

(F) **Horticulture Development:** The Bank has started a scheme of Horticulture Development. Under this scheme, the Bank has provided Rs.69.92 crores to 15804 members in the year 2001-2002 which is 10.28 percent of the total credit provided in the year.

Under this scheme, the Bank provides loan for growing flowers or floriculture, sericulture and horticulture. A total of Rs.269.31 crores to 100893 members has been disbursed under this scheme by the Bank since its inception to the end of March, 2002.

Problems of Diversified Loan Schemes:

The diversified lending of the Bank has been emphasised to accelerate the living standard of small, marginal farmers and other weaker sections of the society and development of the nation as a whole. But the Bank has not shown that much progress in this regard as envisaged in the planned development of the State. The

reason are numerous but the main problems adversely influencing the progress of the Bank are discussed below:—

- (i) **Un-awareness of the Schemes:** The small farmers and other weaker sections lacked knowledge and information about; the potentialities and scope of development of agriculture and other subsidiary activities and also the sources of credit from LDBs and procedures of securing it. It may be mentioned here that the majority of the eligible borrowers belonging to this category are illiterate person and the media used for publicity by the Bank is by brochures, radio, television only. As such, publicity through brochures, etc. has not been of much use. More desirable methods should be for the field staff to contact such borrowers personally and explain to them the salient features of various schemes formulated by the Bank and also the advantage that will accrue. Whenever, the schemes are formulated, details should be brought to the notice of eligible borrowers by contacting them personally or through block development officers: Associations and corporations established in the State for the welfare of these categories of person. It will fruitful to conduct face-to-face inter-action sessions in motivating the rules masses.
- (ii) **Land as Security:** Despite the fact that there had been a shift in emphasis from security oriented to production oriented credit, the U.P. State Cooperative Village

Development Bank Ltd., in practice, continues to rely on the land security for determining the loan eligibility. This is noted as a major problem of small farmer and other weaker section as their credit eligibility was restricted due to inadequate security of land. Unless the attitude of the Bank to advance credit against securities other than mortgage of land, particularly for diversified purposes, is changed, the small farmers would not be able to take benefit of Bank's credit.

- (iii) **Psychological Fear:** Due to lack of technical knowledge for the projects undertaken by the borrowers out of credit from Bank, the project could not generate the estimated incremental income and often, the project totally failed. As a result thereof, the borrower shall become defaulter and coercive action of the Bank shall make them landless. These actions create a psychological fear in the mind of farmers, i.e., losing la land if the project fails. This is bound to discourage them from taking up any development programme requiring bigger investment through loans, specially LDBs loan. In order to remove psychological fear on the part of marginal/small farmers and other sections in raising bigger loans for capital need, it is suggested that the site scene may be arranged for prospective borrowers to the successful projects undertaken by the borrowers financed by LDB. The beneficiary borrowers may explain to the prospective borrower the techniques of the project, as well as,

benefits and additional income accruing therefore. Such site scenes definitely have an effective impact on the farmers and create a confidence to bear the risk which lead to undertaken the development programmes by them.

- (iv) **Rate of Interest:** The multi-agency approach has been adopted to provide the agricultural credit in the state. The Differential Rate of Interest (DRI) scheme has been evolved for distribution of credit to the people in rural areas including scheduled caste/tribes. This scheme requires the Commercial Banks to lend a minimum of one percent of their aggregate advances to the identified persons. The rate of interest shall be charged @ 4 percent per annum on such loans. This enabled the Commercial Bank to accelerate their business for diversified purposes, but this facility is not available to the LDBs. Hence, it is suggested that this benefit should also extended to the LDBs, so that, they should also enhance their lending to marginal farmers and weaker sections.
- (v) **Burden of Old Debts:** The Reserve Bank of India is issuing guidelines to LDBs for advancing loans, from time to time, one of the suggestions made by the RBI is that loans should not be advanced for redemption of debts, as far as possible, while it is desirable that most of the loans should be for the productive purposes. Moreover, a clear and maketable title to the land is necessary for bank loans. In case, the farmers are already

indebted to the money lenders etc., which is usually against their land, they do not have clear title to their holdings. As a result, such persons can not obtain the loan from the Bank. If the loan for redemption of such debts are not advanced by the LDB; such borrowers will continue to remain perpetually in debts.

In view of old burden and consequent limitations for growth, it is suggested that for small and marginal farmers the provision of loan for redeeming old debts should be made alongwith development oriented loans.

(vi) **Lack of Extension Services:** Loanees experience great difficulty in getting suitable technical advice. Virtually, there is no arrangement for this at branch level. In the absence of it, the loanees are after misled by the vested interests. It is suggested that the bank should also provide the extension services to the borrowers simultaneously with the advancing of loans. For this purpose, the Bank must build up their own technical staff at the State level, district level and also at branch level. They are not only for preparation of schemes and technical appraisal of loans, but also to give guidance to the borrowers on technical aspects and for adopting appropriate technology.

(vii) **Period of Loans:** It is observed that the period of loans are fixed by the U.P. State Cooperative Village Development Bank Ltd. for different purposes in a

mechanical manner without working of borrowers. Thus, the Bank provides loans to the borrowers for fixed period for different purposes which generally vary from 7 to 10 years. There is a provision that the period of loans to the small farmers are extendible upto 15 years which provision is limited in the file only.¹² It may be noted that the shorter loan period to the small farmers have been responsible for increased overdues in LDB to a certain extent.

It is necessary that loans to small farmers should be sufficiently for longer periods to facilitate easy repayments and consistent with their repaying capacity after allowing a large portion of incremental income for meeting consumption need of family.

- (viii) **Biased Attitude of Bank and Its Employees:** The biased attitude of the Bank and its employees is also responsible for slow progress in loan distribution to the small farmers and other weaker sections, as the higher work loan and higher cost in retailing credit and servicing is involved in distributing the target amount to the small farmers and other weaker sections. This is because of small amount of loan and larger number of borrowers and also because of adjustment of part of loans against subsidy. The loans to these categories also required more supervision for its proper use and extension services.

12. By the courtesy of General Manager, U.P. Sahkari Gram Vikas Bank Ltd., Lucknow.

This, the employees favour the big loan viz., purchase of tractors, machinery, etc. which enable them to achieve the target easily. The verification of proper use of such loans is also easy, i.e. merely the possession of the assets purchased out of Bank loan is a sufficient proof.

In order to achieve the objective and social obligation of servicing the economically weaker sector of the community, it is necessary to change the attitude of the Bank, as well as, of its employees. Hence, it is suggested that a specific percentage of a annual disbursement should fixed say 50 percent of annual disbursement for small/marginal farmers and other weaker sections. Further, the State Government should come to the aid of the Bank by providing managerial subsidy if the viability of the bank affected by higher cost involved in retailing credit to small farmers, etc., and servicing of a large number of loans over long period.

- (ix) **Credit to Defaulters:** As a matter of policy and discipline, the Bank do not provide credit to their defaulters even if a small amount which is overdue through the proposed investment in viable activity. Inspite of RBI's directive of March, 1980 that one cultivating upto one hectare irrigated land or upto 2 hectare of dry land, if he was in default to a credit agency under short-term, medium term or long-term, fresh credit

may be provided by a Land Development Bank.¹³ He is treated as a non-defaulter provided the Bank is satisfied that the default was non-willful. The amount of default together with the fresh investment credit should be granted to him which is within the repaying capacity of the borrowers. As a result of this concession, the Bank is in a position to provide credit even to defaulters of past loans/provided, he has capacity to repay the past loan installments and the installments of new loans.

Thus, the Bank should extend the above facility to genuine cases after due consideration of all relevant fact and not as a matter of course.

The ultimate objective of economic growth in developing countries is to seek the well being of its people by raising standard of living and maximising per capital income. In an economic like that of Uttar Pradesh, this warrants for selected approach based on realistic assessment of potentialities available. It is, therefore in this context that our State suggests the development of agriculture as a real potential to stimulate economic growth. Agriculture occupies a major place in the set up of Uttar Pradesh economy. Its development operation has snowball effects over whole of the economy and constitutes the most important constraint by supplying food for the population and some basis raw material for expansion of certain Consumer goods industries. Agriculture industry has indeed become a bulwark of rural economy in shaping its economic destiny.

13. Report of Agriculture Credit Review Committee (A review of the Agriculture Credit System in India), RBI, 1983, p. 86

Long-term loans required by the farmers are taken for purposes which are expected to bear fruits gradually over a considerable period of time. Hence, their repayment is expected only out of the net savings of the borrower and not out of his gross which, otherwise, is bound to disturb his normal business and adversely affect the standard of his living. The success of such loans will therefore, depend upon: (i) the amount of loan; and (ii) the manner of repayment. Obviously, the amounts lent must be sufficient for achieving the purpose. The rate of interest must be low and the amortisation must be allowed in convenient annual instalments spread over a sufficiently long period during which the loans must have yielded sufficient return on the investment by the borrower. It is also necessary that the borrower must make full disclosures of his liabilities and the purpose for which the loan is required. The credit must be on the proper utilisation of the loan. In fixing up the annual instalments, consideration must be had to the repaying capacity of the borrower. For this purpose, the Uttar Pradesh State Co-operative Land Village Development Bank Ltd. came into existence in the year 1959 to cater the financial requirements of the Agriculturists under long-term programme. It is a pioneer Bank which introduced Agricultural Development Scheme in the State for the first time in the year 1968 to cater the financial needs of agriculturists in the State. During the existence the Bank advanced huge amount under Agriculture Development. The overall performance of the bank on account of recovery and loaning for the purpose of agriculture development remained highly remarkable.

Loans Advanced for Agriculture Development

The amounts raised by issuing special development debentures should be utilised for financing NABARD approved scheme. The funds raised through ordinary debentures are utilised for financing various purposes, which are called normal/general loans.

To be eligible for financial support from the NABARD, the Bank has to prepare schemes and get the approval of NABARD. The scheme should have the following qualifications:

Any scheme drawn-up for the development of agriculture production, technical feasible, economically sound and commercially remunerative. It is necessary that the scheme should be drawn – up for specific areas or for certain specified crops and should be compact and composite in character and amenable to close and intensive supervision.²¹

21. The RBI- Functions and Working, 1989, p. 125.

Chapter - IX

*Performance of U. P. State Co-operative
Village Development Bank Ltd. in
Agricultural Development of Aligarh District.*

CHAPTER – IX

PERFORMANCE OF U. P. STATE COOPERATIVE VILLAGE DEVELOPMENT BANK LTD. IN AGRICULTURAL DEVELOPMENT OF ALIGARH DISTRICT.

The previous chapter discussed the role of U.P. State Cooperative Village Development Bank Ltd. in the agriculture sector of the Uttar Pradesh and found that the Bank, given its resources, has contributed a great deal in helping the State's farm sector. There is, however, need to augment the resources of this Bank so that it is able to play a greater role and render extend financial, technical and other required assistance to farmers of the State. The present chapter is devoted to a critical review of the performance of the Bank with reference to Aligarh district. The discussion, to begin with, introduces the Aligarh district by presenting a modest profile of Aligarh. Later, it examines the operation of the U. P. State Cooperative Village Development Bank Ltd. in the area of agricultural development of the Aligarh District.

Profile of Aligarh District:-

The State of Uttar Pradesh comprises of 70 districts. Aligarh is one of the important district of State, in view of its size, population, industry, agriculture, administrative setup and socio-

cultural heritage. The various features of Aligarh are enlightened in the following description:-

Location: Aligarh district is one of the districts of Uttar Pradesh. It lies in Agra division, which consist of six districts. It is situated at Delhi-Kanpur road between the *doab* of Ganga - Yamuna rivers. It lies between the Parallels of $27^{\circ} 29'$ and $28^{\circ} 11'$ north latitude and $77^{\circ} 29'$ and $78^{\circ} 38'$ east longitude. The Ganges separates Badaun district in the north-east and Yamuna separates Gurgaon district (Haryana) in the north-west. The district is bounded by Bulandshahar district in the north, Mathura district in the west and Etah district in the south and south east.

Administrative Set up:

The district has been divided in to six tehsils and seventeen blocks as per details given below.

There are 171 Nyay Panchayats which comprise 1498 Gram Sabahs. There are 20 towns in the districts. The name of towns are as follows:-

- | | |
|------------------------------------|--------------------------|
| 1. Aligarh (Municipal Corporation) | 2. Khair (M.B) |
| 3. Atruali (M.B.) | 4. Sikandra Rao(M.B.) |
| 5. Hathras (M.B.) | 6. Jalali (T.A.C.) |
| 7. Iglas(T.A.C.) | 8. Harduaganj (T.A.C.) |
| 9. Beswan(T.A.C.) | 10. Sasni(T.A.C.) |
| 11. Mursan(T.A.C.) | 12. Mendi (T.A.C.) |
| 13. Charra(T.A.C.) | 14. Purdil Nagar(T.A.C.) |

- | | |
|-----------------------|---------------------------|
| 15. Koriaganj(T.A.C.) | 16. Pilkhana (T.A.C.) |
| 17. Vijaygarh(T.A.C.) | 18. Hasayan(T.A.C.) |
| 19. Jattari (T.A.C.) | 20. Kasimpur (Censustown) |

Area: The geographical area of the district is 5028 sq. Km as per 1991 census which is 22.4 per cent of the total area of Agra division. It ranks first in Agra division so far as the geographical area is concerned. Block wise area is as under:

Table 9.1
Block wise area of Distribution (Descending order)

S.N o.	Name of the Block	Area in sq. km	Per centage of total Area of the District
1.	Tappal	368.7	7.3
2.	Gangiri	345.3	6.9
3.	Chandaus	329.7	6.6
4.	Khair	320.4	6.4
5.	Jawan	293.2	5.8
6.	Dhanipur	287.8	5.8
7.	Gonda	286.4	5.7
8.	Hasayan	284.1	5.7
9.	Atrauli	283.9	5.0
10.	Akrabad	278.0	5.5
11.	Sasni	268.6	5.4
12.	Lodha	267.7	5.3
13.	Sikandra Rao	257.5	5.1

14.	Iglas	256.6	5.1
15.	Bijauli	250.6	5.0
16.	Hathras	237.3	4.7
17.	Mursan	226.3	4.5
Total (Rural)		4842.1	96.30
Total (Urban)		185.9	3.70

Source: Socio-Economic Review of Aligarh District 1988-89, 1990-91

Rural area covers 48424 sq km (96.30 per cent) where as urban areas is only 185.9 sq km (3.7 per cent). Tappal block is the largest while Mursan is the smallest in area. Khair Tehsil is the largest and Iglas is the smallest in area. Atrauli, Koil, Sikandra Rao and Hathras tehsils ranks second, third, fourth & fifth respectively.

Land Utilisation: Agriculture based economy is predominant in the district. The total reported area of the district in 1980-81 was 502840 hectares out of which 77.6per cent was the total reported sown area. The per centage in 1987-88 was 77.87per cent showing a marginal increase in the net area sown. Forest occupied 0.19per cent in 1987-88 of the total reported area. The following table shows the land utilization pattern of Aligarh district in 1980-81, 1985-86 & 1987-88.

Table 9.2

Land utilization pattern in 1980-81, 1985-86 , 1987-88,

S.no	Item	1980-81	1985-86	1987-88
1.	Total geographical area in sq. kms	5019	50-19	5019

2.	Area under forest (ha)	808	871	971
3.	Land put to non agriculture area (ha)	66063	40281	40595
4.	Permanent pastures (ha)	532	2822	2905
5.	Land under misc. tree, crops (ha)	1036	1055	1069
6.	Current follow (in hectares)	6810	13118	13283
7.	Net area sown (ha)	390237)	391362	391033
8.	Area sown more than once (in hectares)	260638	253670	226520
9.	Gross cropped area (ha)	650875	645032	617553

Source :- District statistical bulletin 1989

Land Holdings: in 1980-81 there were 252217 lands holding in the district which covered an area of 389140 ha. The average size of land holding was 1.54 lac. Distribution of land holding by size is given in the following table.

Table 9.3

Distribution of land holding by size in 1978-79 and 1980-81
(No. of holding in total area ha.)

Size of holding (hectares)	1978-79 (2)	1980-81 (3)	1981-82 (4)	1982-83 (5)
Below-1	117844	131589	5003	52927
1-2	50635	5484	472048	75990
2-3	25753	264086	2624	60937
3-5	24629	25006	93923	94465
5 and above	143761	4370	105602	104821

Total	233237	252217	384227	389140
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Source:- District Statistical Bulletin 1982 & 1983

According to the soil and climatic the district can be divided into the following five divisions:

Northern Part: Comprises of Atrauli, Bijauli, and Gangiri Blocks. It has a light domat soil.

Eastern Part: Includes Akrabad, Sikandra Rao and Hasyan Blocks. Its soil is domat and baloidomat. The water level is high in this region as such soil is alkaline.

Central Part: The soil of this region is domat. There is water logging in some part of this region which rendered this portion unsuitable for agriculture. This region comprises Dhanipur, Jawan and Lodha Blocks.

Western Part: Comprises of Gonda, Chandaus, Tappal and Khair Blocks. Its soil is alkaline.

Southern Part: Includes, Iglas, Mursan, Hathras, Sasni Block. It soil is domat and underground water is abundantly available in the region.

Aligarh has almost a dry climate. During winter the temperature is very low. The mean temperature for December and January 31°C. The summer is hot and maximum temperature of the district is around 47.2°C. The district receives normal rainfall of 753 mms out of which about 80per cent occurs during July, August and September.

Principle Crops: Three harvests are cultivated in the district, viz. Rabi, Kharif and Zaid. Rabi and Kharif are the main crop seasons. Rabi crop claims about 54per cent, Kharif about 40per cent and Zaid

about 6per cent. Wheat is the most important cereal crop which claimed 403per cent of the total cultivated, area in 1987-88 followed by Bajra, Maize, Barely & Paddy. Pulses, oilseeds, sugarcane, Potato and cotton are also important crops which are widely grown. Total area under principal crop in 1987-88 is given in the following

Table 9.4
Area in Hectares under various crops and its per centage during
1997-1998

S.No.	Name of the Crop	Total Cropped area (ha)	% of the total cropped area
1.	Wheat	227599	40.3
2.	Pulses	81845	14.5
3.	Bajra	76889	13.6
4.	Maize	55983	9.9
5.	Barely	44749	7.9
6.	Oil seeds	40484	7.2
7.	Sugarcane	15416	2.7
8.	Paddy	9492	1.7
9.	Others	12688	2.2
	Total	565145	100.00

Source:- District Statistical bulletin 1990-91

Forest: Forest occupied 1971 hectares of land in 1997-98 it was 0.3 per cent of the total area. Various forest products include timber, fuel

wood, grass and fruits. Various products are shown in the following table.

TABLE 9.5
Various forest products in 1990-91, 1995-96 and 1998-99.

Nature of forest products	1980-81	1985-86	1988-89
Building furniture	1367.974 cub m	41.442 cub m	193.97 cub m
Fuel wood	267 q	362 q	800 q
Fruit	120 q	NA	70 q

Source:- District Statistical bulletin 1990-91

Agriculture Implements: Improve agriculture implements are catching up with the cultivators in the district. The number of tractors which were only 603 in 1972 has gone up to 3906. Similarly tillers and threshers during this period have gone from 997 and 3588 to 662 and 11149 respectively showing a tremendous increase in the use of improved agriculture implements.

Fisheries: The district is backward so far as fishers are concerned. There is only inland water fishing which is negligible. In 1998-99 inland water fishing covered only an area of 80 ha and the quantity of fish howled was only 1060 q.

Minerals: No important minerals are found in the district. The only minerals that are found are kankar and sand which are used in construction work.

Industries: The district is well developed in industries and there are a number of big and medium level industries. Prominent among them are:

1. Satha Sugar factory
2. Prag Oil and Ice mills

3. Central Dairy Farm
4. Gil India Ltd (Heinz
5. Gopi Vanaspati
Products
6. Darshan Oil Mills Pvt.
Ltd.
7. Hicks Thermometers
India Ltd.
8. Khandelwal Glass
Works, Sasni
9. Bijli Cotton Mills
Hathras
10. Govt. Printing Press,
Aligarh
11. Harduaganj Power
Project, Kasimpur

The important commodities manufactured in the district are: locks, building fitting materials, electrical equipments, glass bottle, beads and wares, agriculture implements, dal and oil manufacturing, soap and silicate, medicine and chemical, printing and stationery wooden and steel furniture, rubber and plastic goods, electroplating, candle manufacturing, rose water, ghee, readymade garments, hard wares, duree, handloom, cloth sugar, vegetable products, milk products, pant hooks, buttons and badges, toy pistols, brass bulb caps, brass hardware, leather shoes, fibre rope making and baskets making.

There are three industrial estates in the district which are located at Aligarh, Atrauli and Hathras. There were 242 establishment having total employment 1988-89. In addition to this there were 4694 units under small scale industries employing 37018 workers in 1988-89. Most of the industries are located in cities and towns. Important industries situated in rural areas:

1. Satha Sugar Factory, Satha
2. Gill India Ltd (Heinz) Manzoorgarhi
3. Central Dairy Farm, Chherat

Power Generation and Distribution: There is one big thermal power house at Kasimpur which meets electricity requirements of the district. A total number of 1663 villages have been electrified by 1988-89. Per capita consumption during 1987-88 was 109 KW whereas it was 162 KW in 1985-86 and 133 KW in 1986-87. There is gradual decline in the per capita consumption of electricity. The highest consumption of electricity was in the agriculture sector

which was 73.1 per cent during 1987-88. Following table depicts rate of consumption of electricity by various sectors.

TABLE 9.6
Rate of consumption of Electricity (in KW) in Various Sectors

S.No.	Items	Years			
		1984-85	1985-86	1986-87	1987-88
1.	Domestic	8.4	8.1	7.0	4.0
2.	Commercial	6.5	8.1	7.0	4.5
3.	Industrial	18.5	25.6	12.3	15.4
4.	Public lighting	0.4	0.4	0.4	0.4
5.	Rail	27.0	28.5	37.7	4.6
6.	Agriculture	29.0	31.6	35.6	73.1
7.	Water works & sewage etc.	0.1	0.6	0.23	1.3
	Total	100.00	100.00	100.00	100.0

Source:- District Statistical bulletin 1989-90

Transport and Communication: The district is well served by railways as well as by roads. The railway track in the district runs to a total length of 168 kms. Out of which 106 kms is broad guage while meter guage is 62 kms. The main railway line is Delhi-Howrah railway line. Besides this the district is connected with

Bareilly by rail. Meter guage passes through Hathras & Sikandra Rao Tehsil. There are 21 railway stations including halts.

There are three state highway viz. Delhi, Kanpur, Calcutta, Agra, Bharatpur, and Chandausi-Tatpur-Kota which traverse the district. These state highways are 207 kms in length. The UP state road transport corporation runs buses on major routes of the district.

There are 485 post offices in the district out of which 425 are in the rural areas, which account for 87.6per cent of the total post office. There are 96 public call offices out of which 50 are in the rural areas which account for 52per cent. There is no radio station and relay center of television at the district headquarters.

Population: According to 1991 census the district has a population of 2574925 out of which urban and rural population was 592144 (23per cent) and 1982781 (77per cent) respectively. The population as per 1991 census was 21.93per cent higher than the corresponding figure of 2122829 in 1991 (urban 377031) and rural (1734798) while the urban population increased by 57.05per cent during the decade 1981-91, the rural population increased by 14.29per cent during the same decade. The increase in male population was 21.5per cent while increase in female population was 22.45per cent during the above period. In 2001, population increased to 32.96 lakes, 77per cent in rural areas and 23per cent in urban areas.

It would be seen from the data presented in the above table that the rural population, which was 77 per cent of the total population, continued to be predominant in the district. Even

though the urban population has been growing rapidly, it has no sizeable impact on the demographic situation of the district as per 1981 census while the towns as per 1991 census were 20. Following 13 towns have been added:

- | | |
|------------------|---------------------------------|
| 1. Beswan | 2. Chharra |
| 3. Harduaganj | 4. Hasyan |
| 5. Iglas | 6. Jalali |
| 7. Kauraganj | 8. Khair |
| 9. Jattari | 10. Mendu |
| 11. Purdil Nagar | 12. Kasimpur Power House Colony |
| 13. Vijayg | |

Kol Tehsil had the largest population while Iglas has the smallest Urban station in the district which is 23per cent higher than that of the state average of 17.9per cent.

Age Composition:

Age group 5-14 had the highest population 7,60166 followed by 4,44,241 in the 15-24 age group in 1981 census. The table 9.7 shows age wise distributions as per census in Aligarh District.

Table 9.7

Break-up of Population of the District by Rural, Urban and Age Group:

Age Group 1	Urban 2	Rural 3	Total 4
All age group	592144	1981781	2574925
0-4	74634	2540901	329535

5-14	166580	593586	760166
15-24	116322	327919	444241
25-29	44783	127614	172397
30-59	155581	536351	691932
60- and above	33825	141573	175398

Source: District Statistics Books 1998.

Note: In all age group those who have not disclosed their age have also been included.

Literacy and Education- Literacy was as high as 31.35per cent in the district as a whole with 27.79per cent in the rural and 44per cent in the urban areas. The Literacy rate in the state was 27.16per cent. Among the Tehsils, Kol Tehsil has the highest literacy rate literacy rate in male was 44 per cent while it was 16.24 per cent in case of female population. In both the cases the literacy rate in the district was higher than that of state average.

Scheduled Caste / Tribe Population:-

According to 1991 census the district has 22.5 per cent scheduled cast population. Hathras Tehsil has the largest concentration of scheduled caste which was 26.5 per cent of the total population of Tehsil followed by Khair Tehsil which had 23.3 per cent. Atrauli has the least concentration which was 18.9 per cent scheduled tribe population is negligible in the district. Relevant date is furnished in the following table.

Table 9.8
Schedule Cast/ Tribe Population in each tehsil

Tehsil	Total Populatio n	Schedule cast	%age of Scheduled caste population in total population	ST as per 1991 census
1	2	3	4	5
Khair	385749	89709	23.3	--
Koil	721884	158454	22.0	14
Iglas	228436	52206	22.9	--
Hathras	457789	121426	26.5	--
Atrauli	432417	81781	18.9	7
Sikandra Rao	348650	75777	21.7	--
Total	2574925	579353	22.5	21

Source:- Statistical Diary. State Planning Commission Govt. of Uttar Pradesh, 2000

Workers: 1991 census has enumerated 683378 as main workers. The participation rate of main workers to population was 26.5per cent in 1984 the corresponding rates for rural and urban population were 26.9 and 25.4per cent respectively. Cultivators were the highest in number followed by agricultural labourers. Relevant date is presented in the following table.

Table 9.9
Workers Classified by Economic activity for Rural and Urban
Areas as per 1991 Census

S. No.	Economic	Rural	Urban	Total
1	2	3	4	5
1.	Cultivators, agricultural,	318112	11237	329349
2.	Labourers	121248	8242	129490
3.	Mining & Quarrying	21	48	69
4.	Live Stock, Forestry Fishing & Plantation	2099	1342	3441
5.	Trade & Commerce	9834	31412	41216
6.	Manufacturing Industry	35924	42492	78416
7.	Construction	3660	3567	7227
8.	Transport, Storage & Communication	7973	9756	17729
9.	Other services	34087	42324	76411
10.	Total	532958	150420	683778

Source:- Statistical Diary, State Planning Commission Govt. of Uttar Pradesh, 2000

The above table shows that there is a sharp contrast in the industrial distribution of workers between rural and urban areas. In the rural areas 82.4 per cent were cultivators and agricultural

labourers. In the urban areas on the other hand 12.9 per cent belonged to these two categories 20.2 per cent of the total urban workers were engaged on manufacturing industries which are mostly concentrated in urban areas.

Trade & commerce, transport storage and communication and other services account for 55.55 per cent in the urban areas due to the concentration of administrative offices, medical & Educational institutions and public utilities in the urban centres.

Workers engaged Tehsil wise rural/urban areas is furnished in the following table

Table 9.10
Workers engaged Tehsilwise Rural/Urban areas

Name of Tehsil	Rural	Urban	Total
Koil	96944	89206	186150
Hathras	90571	30486	121057
Atrauli	109079	9079	118176
Khair	9507	35892	100929
Sikandra Rao	8331	13409	96720
Iglas	5801	62330	60346
Total	532958	150420	683378

Source:- Statistical Diary, State Planning Commission Govt. of Uttar Pradesh, 2000

The important feature that average from the above table is that the participation rate is higher in rural sector then the urban sector.

Non- worker:- The Proportion of non-workers in the district was as high as 73.26per cent as per 1981 census. It was 72.89per cent in the rural and 74.51per cent in the urban areas. The proportion of female non-workders are around 98per cent in rural area it was 51.52per cent while in urban area it was 54.33per cent. total number of non workers in the district as per 1981 census was 1886355 which included 729662 males & 1156693 females.

Unemployment:- the unemployment situation in the district has been studies analyzed on the basis of date relating to the under of job seekers registered with the employment exchanges functioning in the district.

The number of job seekers available on the live Registers of the employment exchanges in the district were 29466 at the end of 1981 where as it was 55698 at the end of 1989 showing an increase of 26232 (89per cent). The number of woman applicants at the end of 1991 were 1374 whereas there was 3185 woman applicants at the end of 1999 showing an increase of 1811 (131.8per cent) Job seekers who matriculate and above were 67.9per cent of the total employment seekers. Available on the live Register at the end of December 1991.

TABLE - 9.11

Number of Recognized Educational Institute in the District
During 1987-88 Blockwise.

Name of the Block	No. of Junior Basic School Total	No. of Junior Basic School Girls	No. of High School College Total Girls
Atrauli	67	24	45 --
Gangiri	70	33	35 --

Biguali	59	14		12	--
Iglas	76	20		26	--
Gonda	73	14		28	1
Jawan	73	22		26	1
Dhanipur	74	22		55	--
Lodha	80	16		45	1
Khair	83	26		48	--
Chandausi	72	16	3	7	--
Tappal	71	21	2	11	--
Akrabad	80	18	6	5	--
Sikandra Rao	58	15	2	3	--
Hasyan	67	15	1	7	1
Mursan	60	21	--	4	--
Sasni	71	16	5	6	--
Hathras	69	16	5	9	1
Total (Rural)	1203	329	51	102	6
Total (Urban)	229	47	13	44	18
Total (Dist.)	1432	376	64	146	24

Source:- The Socio-Economic Review 1998-99 and Statistical Bulletin 1999.

Employment Generating Schemes: Several Employment Generating Schemes has been implemented in the district which had generated enough employment opportunities in the past. Prominent among them were NREP < RLEGP SEEUP and TRYSEM 67.83 Mandays were created in the district from 1995-96 to 1998-99 through MREP and RLEGP 1397 public building were constructed during 1995-96 to 1998-99 (1159 in urban and 238 in

rural areas.) and 3.65 lakh Mandays were created. Under SEEUY 2802 persons were benefited from 1993-94 to 1998-99. In NEPUP 5238 persons got financial assistance from 1994-95 to 1998-899. Special component plan helped 14372 persons from 1990-91 to 1998-99. Under margin money scheme 90 minority candidates were given financial assistance in 1998-99. 1351 persons were assisted under TRYSEM from 1996-97 to 1998-99.

Banks: No. of Bank branches in the district at the end of 1998-99 were 213 which increased to 231 in 1997-98.

Education and Training: Educational facilities are wide spread throughout the district. The district has one central university (AMU) which has all the faculties including Engineering and Medical. At the end of 1998-99 there were 1432 junior basis schools 376 senior Basic schools including 64 schools for girls. No. of senior basic schools situated in rural areas where were 329 including 51 for girls. The no of high school / intermediate colleges were 146 including 24 for girls. No. of high school / intermediate college were 146 including for girls. No. of high schools / intermediate colleges in the rural areas were 102 including 6 for girls. There were 6 degree and post graduate colleges in the district including 2 for girls. There were 7 industrial Training Institutes, 2 Polytechnics, one engineering college and one medical college (J.N.M.C, A.M.U.).

Medical and Health :- Details of Medical and Health Service existed in the district in 1998-99 were as under-

Table 9.12
Medical & Health Services Existed in the District
in 1998-99

S. No.	Type of Medical & Health Service	No. in 1998-99
1.	Allopathic Hospital and Dispensary and Primary Health Centre	91
2.	Ayurvedic Hospital and Dispensary	31
3.	Homeopathic Hospital & Dispensary	7
4.	Unani Hospital & Dispensary	5
5.	Family & Maternity Welfare Centre	45
6.	Family & Maternity welfare sub-centre	370
7.	T.B. Hospital	2
	Total	551

Source:- Statistical Diary, State Planning Commission Govt. of Uttar Pradesh, 2000

Table 9.13
Live Stock Population in 1992

S.No	Animal	Number in 1992
1.	Cows	662368
2.	Buffaloes	322304
3.	Cow Bulls	108739

4.	Buffalo Bulls	48190
5.	Sheep	25850
6.	Goats	175538
7.	Pigs	38268
8.	Poultry	2577
9.	Birds	86588
10.	Others	18767
	Total	889243

Source:- Statistical Diary, State Planning Commission Govt. of Uttar Pradesh, 2000

Cooperatives: There were 203 co-operative societies in 1990-91 at their number went up to 533 in 1998-99 recording an increase of 336 (165.5per cent). The highest no. of cooperative societies were in Sikandra Rao Thesil followed by Atrauli Tehsil Lowest no. of Cooperatives societies were in Iglas Tehsil. Banking facilities increased in Aligarh as given below especially in rural areas.

Table 9.14
Banking Facilities in Aligarh

S.N o.	Name of Bank	Rural	Semi- urban	Urban	Total
1.	Commercial Banks	42	21	47	110
2.	Regional Rural Banks	77	10	4	91
3.	Cooperative Banks	24	2	2	28
4.	U.P. Financial	--	--	1	1

	Corporation				
--	-------------	--	--	--	--

Source: Canara Bank Lead Bank Office Aligarh

Cropping Pattern: There are three main agricultural seasons in the district. During Kharif season, bajra paddy, maize and arhar and mustard whereas and fodder crops and vegetables during summer (zaid crops) one grown in the district. Among the cash crops. Sugarcane cotton & Potato are commonly grown.

Irrigation: The district enjoy the benefit of all the three sources of irrigation viz. rivers, canals and ground water. Total length of canals in the district is 1304 kms. In addition to this 643 Government tubewells 29588 private tubewells, 5909 pumpsets etc are in use.

Following major irrigation projects are under various stages of implementation in the district.

Parallel Lower Ganga Canal: - This project at the estimated cost of Rs.45.1 crores was completed by the end of 1982. It is quite likely that the benefit of the project did not reach the people of Aligarh.

Madhya Ganga Canal Project: The Project was completed by 1983 the estimated cost of Rs.66 crores. The work on this project has also opened the avenues for employment.

Ram Ganga Project: Ram Ganga Project authorities have opened separate office in Aligarh and they have under taken the work

Sikandra Rao, Akrabad, Sasni block etc. The authorities aim at providing better irrigation facilities through construction of pucca channels in the common area of the canals.

Distribution of Fertilizers: The sources of distribution of fertilizers in Aligarh district are Agricultural Development (through fertilizer, stores). Cooperative Department (through cooperative fertilizer stores) cane union Federation Department & Agro Industrial Corporation and Private Dealers. During 1988-90 total distribution of chemical fertilizers from all sources was 26054 million international comprising of 17959 million mt. Nitrogen, 6858 million mt. phosphorus and 1237 million mt. Potash. Blockwise details of distribution of chemical fertilizers is given in annexure 1.

Horticulture: Mango, Guava, Lemon and Papaya an important fruit crops in the district. In addition to this ber, orchards are also available in the entire district. Sasni block finds the prominent place in growing fruits. During harvest season ber, mango and guava are exported to different parts of the country.

Hassayan Block finds a prominent place in commercial rose cultivation. Roses are used for manufacturing of 'Gulkand' rose water and 'Rooh Afza'. State government has taken up a programme to increase the area under rose cultivation and increasing its production by providing technical assistance to the farmers.

In the field vegetable cultivation Potato, Cauliflower, Cabbage, Peas and Tinda are important crops. During the harvest season that commodities are exported to different countries.

Farm equipments: Total number of tractors in district is 1417 as per 1991 census. According to private tractor dealers on an average about 350 tractors are being sold every year including the rate due to replacement of existing old tractors rendered unserviceable.

Small and marginal farmers use plough animals / drought animals for ploughing their fields or hired tractors from big farmers as and when required. Generally, scope for Agro Service Centre is Limited since farmers have to make down payments at Agro-service centre whereas to their neighbours they company at the harvest poor resources of these farmers prompt them to defer payments. Secondly Agro-Service Centre one located in Cities hence much time is wasted in contracting them and to have the tractors at sale. Under the IRDP, improved qualities of farm equipment are being supplied through District Rural Development Agency.

Animal Husbandry: As per 1991 census total cattle wealth of the district is 6.99 lakh of which then were 4.23 lakh of milk buffaloes and milk cows. Average milk production is still low. There were 755 villages located at a distance of more than 5 km from artificial insemination centre. From the above it is clear that the interior villages double get the adequate medical facilities at time of need.

Inspite of the above, number of farmers in the district have adopted dairying as their subsidiary occupation. Aligarh Dugdh Utpadan Sakahari Sangh is engaged in organizing milk collection societies for collection and transportation of milk. Glaxo

Laboratories (India) Ltd. (now Heinz) and other allied products. This has further improved the scope of dairying in the district.

At present cattle of improved breed are being imported from nearby districts of Haryana. Due to be adjoining to Haryana Khair Tehsil has got good number of high yielding buffaloes cattle melas.

Block Profiles of Aligarh District:-

1- Jawan Block: Jawan Block is situated at a distance of 17 km from the district head quarters. The length of the surface road in the block is 40 kms. 56 villages are link by the roads. The number of villages electricfield is 70.

Out of the total cultivated area of 21162 hac. 19857 ha are irrigated paddy maize, wheat, barley, pulses, sugarcane, potato, cotton and bajra are the main crops grown in the three major agricultural seasons, scope for development of dairy as an allied activity is these, because of the existence of Glaxo Laboratories and central dairy farm in the block. A few units of goats rearing are there in the block but there is not much scope for development due to non-availability of good quality goats.

2- Dhanipur Block: Dhanipur Block is situated at a distance of 4 km from Aligarh. The length of surfaced road in the block is 45 km out of the total villages only 6 are linked by all weather roads and 50 are electrified. There are two town areas in the block, namely Jalali and Harduaganj. nearly 74per cent of the total available area is utilized for cultivation of the total cultivated area of 22244 hac. 21494

ha is irrigated. Maize, bajra, wheat barley, pulses, paddy, sugarcane and potatoes are the main crops of the block. Nearly 50per cent of the farmers are having land holding less than one hac. The present position of sheep, goat rearing , dairying. Poultry and fishers is not satisfactory. There is not much development in these sectors but scope is good.

3. **Lodha Block:** Lodha Block contains the Aligarh town area and hence has special significance of development of various economic activities of the total 132 inhabited villages of the block 38 villages are linked by all weather roads and 48 villages through Kachha roads 72 villages (54.60per cent) are electrified accessible.

Nearly 77per cent of the total area of the block is undercultivation. Wheat, barley, maize bajra, paddy, gram, arhar, sugarcane and Potatoes are the major crops grown in the block. Nearly 75per cent of the farmers are having land holding of less than 3 hac. Thus small and marginal farmers accounts for major number of holdings. There is much progress under horticulture. Dairy and poultry can be developed well, under IRD scheme because of the blocks proximity to Aligarh City.

4. **Atrauli Block:** Atruali block in situated at a distance of 27 kms from Aligarh spread over an area of 280 sq. kms. The length of surfaced road in the block is 44 kms of the total 114 villages, only 30 are linked with all weather pucca roads and 84 by Kachha roads are accessible through out the year.

5. **Bijouli Block:** Bijouli Block is the most backward block in the tehsil Atrauli. It is situated at a distance of 16 kms from Atrauli. The total area of the block is 260 sq. kms. Only 15 villages are connected with all weather roads out of the total number of 84 villages, only 43 villages are electrified.

The total reporting area of the block is 25323 ha. gross irrigated of the block is 17493 ha. while the net irrigated area is 19705 ha. private tubewells account for 51 per cent of irrigation. Paddy, Bajra, Maize, Wheat, Barley, Pease, Sugarcane, Ground nut, Potatoes and Oil seeds are the main crops of the block. 50 ha. of land is covered under horticulture crops with regard to Dairying, Poultry, Piggery, Fisheries, Sheep's and Goat rearing. There is limited scope for development in the block.

6. **Gangiri Block:** Gangiri block is situated at a distance of 52 kms from Aligarh. The length of surface road in the block is 34 kms of the total 100 villages only 21 are linked by all weather pucca roads and 43 are electrified.

More than 80 per cent of the total area is utilized for cultivation. There is no forest area in the block. The total cultivated area of 28253 ha. 24532 ha is the irrigated. Private tubewells pumpsets, are the major source of irrigation. Paddy, Bajra, Maize, Arhar and Mower crops are grown oil seeds, sugarcane ground nut and potato are the commercial crops grown under horticulture. Mango and ber are the major fruit crops that are grown extensively in the

block. Gangiri block holds the primary position in respect of mango and ber production. The development of sheep / goat rearing dairying and fisheries is not significant in the block.

7. **Hatharas Block:** The block is situate at distance of 35 kms from Aligarh the total length of surface roads in the block is 49 kms of the total 108 villages, 11 are linked with all weather roads and 87 with Kuchha roads but accessible through out the year. 44 villages are electrified. More than 85per cent of the total area is used for cultivation out of the total cultivated area of 19852 ha. 18525 ha. is irrigated. Paddy, Maize, Wheat, Barley, Gram, Peas, Sugar Cane, Cotton, Potato and Bajra and the main crops of the block. There is not much development in respect of poultry, fisheries piggery and sheep and goat rearing. However, there is scope for developing dairying as there is an assured demand for milk both Aligarh as well as in Agra which is 52 kms away. Milk is also supplied to M/s Glaxo Laboratories Aligarh and M/s Hindustan Liver Ltd. Etah.

There is one regulated market at Hathras. During harvest season Food Corporation of India and Uttar Pradesh Co-operative Federation make necessary arrangements to purchase agricultural produce directly from the farmers. There are 11 branches of commercial bank in this block. Aligarh Gramin Bank has opened its branches at Lucknow Maho, for Lodpur and Ahen Hathras is famous for the manufacture of carpets, knives and plastic goods. There is one industrial estate with 26 shed in block Ghani oil, edible

oil, processing of cereals, leather, black smithy, carpentry, pottery, timber, musical instruments are the important cottage household industries in the block. Their carpets manufactured in Hathras are exported to the various countries. Lodhpur, Hathras junction, Maho Hathras are identified as growth centres.

8. **Mursan Block:** Mursan Block is situated at a distance of 50 kms from Aligarh. The length of surface road is 21 kms of the total 143 villages 29 are linked with all weather pucca roads and 37 are electrified.

More than 90per cent of the total reporting area is used for cultivation of the total cultivated area of 720303 ha. 19430 ha are irrigated. Private tubewells are the major source of irrigation. The main crops of the block are maize, wheat, barely, pulses,, sugarcane, potatoes, cotton bajra.

- 9- **Sasni Block:** Sansi Block is situate at a distance of 22 kms from Aligarh on Hathras-Aligarh road. The total length of surfaced road in the block is 82 km kms of the 114 villages only 17 villages are linked with all weather pucca roads and 83 villages are electrified.

The total reporting area of the block is 26562 ha. More than 80per cent of the total area is used for cultivation out of the total cultivated are of 22182 ha. 21929 is irrigated. Private tubewells are the major source of irrigation accounting for 77per cent of total irrigation . gross cropped area of the block is 30835ha. Nearly 43482 ha is covered

under double cropping. The major crops of the block are paddy, maize bajra wheat barley, gram, Pea, sugarcane, cotton and potato. Nearly 75per cent of the farmers are having land holding of less than three hectares. This bloc is famous for the production vegetables and fruits. Main fruit crop is guava under vegetable crops the major items are tomato, lady finger, tinda etc. The development under poultry, sheep and goat rearing in the block is not satisfactory. Since Sasm\ni is situate on the Agra – Aligarh main road and is nearer to Aligarh. There is good scope for developing the above mentioned allied agricultural activities under I.R.D. scheme.

10. **Iglas Block:** Iglas block is situate at a distance of 24 kms from Aligarh covering an area of 304 sq. kms. The length of surface road in the block is 63 kms of the total 105 villages, only 11 are linked by all weather pucca road and 81 electrified.

The total reporting areas of block is 20062 ha. More than 88per cent of total area is used for cultivation, of the total cultivated area, 22126 is irrigated. Private tubewells account for as much as 73per cent of the total irrigation network is the block. The gross cropped area of the block is 34647 ha. Of which 12517 ha. Covered under double cropped area. Bajra, Wheat, Barley, Maize, Sugarcane, Potatoes, pulses are the main crops grown in the block. This block is famous for the production of Sugarcane and potatoes storage facilities including cold storage are not sufficient in the

block. The scope for cultivation of vegetable crops are good in the block. The vegetables are sold in the near by villages main vegetables are tomato, cauliflower, lady finger and brinjal.

11. **Gonda Block:** Gonda block is situated at a distance of 24 kms from the district headquarters with an area of 296 sq kms. The length of surfaced roads in the block is 34 kms out of 84 villages of the block 24 are linked with all weather pucca and 35 are electrified.

More than 86 per cent of the total area available is utilized for cultivation. There is no forest area in the block of the total 24011 ha. cultivated area 22364 ha. is irrigated private tubewells irrigate nearly 60 per cent of the total irrigated area. Rice Maize, wheat, Barley, Pulses, Sugarcane, Potatoes, Cotton and Bajra are the major crops of the block.

12. **Khair Block:** Khair block is situated at a distance of 26 kms from Aligarh. The length of the surfaced roads in the block is 68 kms. out of the total 98 villages, 13 are linked with all weather pucca road and 54 villages are electrified.

More than 81 per cent of the total area is utilized for cultivation. There is no forest area in the block of the total cultivated area of 25998 ha. 24903 ha is irrigated. Private tubewells / pumpsets from the major source of irrigation accounting for nearly 65 per cent Paddy Barley, Maize, wheat, Pulses Sugarcane, Potato, Cotton and Bajra are the major crops grown during the three major agricultural

seasons of the block. If suitable land reclamation measures are initiated in the block nearly 1117 hac. Of additional and can be brought under cultivation. The development of sheep / goat rearing, dairying, poultry and fisheries lacking. However there is good scope for fisheries

13. **Tappal Block:** Tappal block is situated at a distance of 55 kms from Aligarh having a geographical area of 378 sq. kms. this block is the largest block in the district in respect of area. The total length of surfaced road in the block is 26 kms of which 20 kms come under state highways of the total 92 villages, only 7 are linked with all weather pucca roads and 54 are electrified.

Of the total reporting area nearly 77per cent is used for cultivation. It is possible to bring under cultivation another 9per cent of area by initiating land reclamation measures and irrigational facilities. More than 85per cent of area is irrigated of which 61per cent is irrigate by private sources. Inspite of the poor infrastructural facilities, the block stands fruit in the production of wheat and sugarcane in the district. Main fruit frown under horticulture are ber, and guava. The soil of this block is very fertile since it is located at the immediate basin of Yamuna.

14. **Chandaus Block:** Chandaus block is situated at a distance of 37 kms from the district headquarters covering an area of 321 kms under Khair Tehsil / the block is having 47 kms of metalled roads out which 18 kms come under National

Highways and villages are connected by all weather pucca roads. The total number of electrified villages is 33.

15. **Sikandra Rao Block:** It is situated at a distance of 39 kms from Aligarh. The total geographical area of the block is 264 sq. kms. The total length of surfaced road in the block is 77 kms of which 21 kms are under N.H. and 22 kms are under S.H. of the total 65 inhabited villages only 11 are linked with all weather pucca roads and 22 are electrified.

Of the total cultivated area of 18260 ha. 93per cent is irrigated. Principal crops of the block are Paddy, Maize, Jawar, wheat barley, gram, peas, oil seeds, sugarcane cotton potato and bajra. The progress with regard to poultry is not satisfactory in the block. There is scope for developing their sectors by providing financial assistance of technical knowledge. IRDP is also in operation in this block which can be stimulant to these activities.

16. **Hassayan Block:** the block is situated at a distance of 58 kms from the district headquarter. It has 83 gram sabahs, 16 gram panchayats and 95 inhabited villages. Nearly 86per cent of the working population is directly or indirectly dependent on agricultural activities for their livelihood. The total length of surfaced road in the block is 33kms 12 villages have been linked by all weather pucca roads of the total 95 villages, only 28 have got electrified.

The net cultivate area is 66per cent of total reporting area. (19210hac). Nearly 48per cent of total villages in the

block suffer from the problem of water logging. This is mainly due to poor drainage facilities paddy, wheat, pulses, potatoes, maize, barley sugarcane, cotton and bajra are the major crops. 13955 hectares are under double cropping. The gross cropped area is 33731 hectares. The block is famous for its cultivation of rose flowers; nearly 200 hectares of land is used for the cultivation rose flower and 3 ha of land for sunflower. Besides, potato crop covers a sizeable area in the block. Even though the block has good potato production there is no cold storage. Hence setting up of cold storage is must in the block. Export of Gulkand and rose water can be possible, if suitable finance is to be provided to take up the work on a big scale, the next important industry in the block is glass bangle & glass bangle making. There are 150 units of glass bangles at Pundilnagar and 10 units of glass bangles in Hassayan. There is very good scope of developing these industries. One of the raw materials 'Reh' (buxite) is available at Pundilnagar itself. Because of lack of power and other infrastructural facilities they have not developed to the desired extent.

17. **Akrabad Block:** Akrabad Block is situated at a distance of 20 kms from the district headquarters. This block is having 9 Nayaya Panchayats. 78 Gram Sabhas and 87 inhabited villages. The total area of the block is 300 sq. km 85 per cent of the people are engaged in agriculture. The length of surfaced road in the block is 40 km out of 87 villages only

15 are connected with all weather pucca roads. The number of villages electrified is 25.

Nearly 70 per cent of the total reporting area is cultivated. The gross irrigated area in the block is 25463 ha. while the not irrigated area is 17091 ha. Paddy, maize, wheat, barley, peas, sugarcane and potatoes are the major crops of the block. There is not much scope for developing activities like poultry, piggy, fisheries and sheep rearing in the block due to lack of infrastructural and marketing facilities.

Performance of U. P. State Cooperative Village Development Bank Ltd. in Agricultural Development of Aligarh District.

The performance of Uttar Pradesh State co-operative Village Development Bank Ltd. in the agricultural development of Aligarh could be evaluated by analysing its lending and recoveries in the district. In the following paragraph a detailed analysis of the lending and recoveries of the Bank has been given.

Lending By the U. P. State Coop. Vill. Dev. Bank Ltd. in Aligarh District.

The lending operation of the Bank in last ten years from 1992-93 to 2001-2002 is exhibited by table 9.15. As shown in the table in the year 1992-93, Rs. 7.04 crore has been distributed to the 55.79 per cent which grew to Rs. 7.21 crore in the year 1993-94 to the 5425 person. There is 2.41 per cent increase in loaning of the Bank. Although the percentage of beneficiaries has been reduced by 2.76 per cent, it is shown that less person has got more amounts loaned for great various purposes.

TABLE - 9.15

**Total Lending in Aligarh District By Uttar Pradesh State Cooperative
Village Development Bank Ltd, (1992-93 to 2001-2002)**

<i>(Rs. in Crores)</i>				
Year	Persons Benefited	Amount	%age Increase / Decrease	%age Increase/Dec ease in
1992-93	5579	7.04	-	-
1993-94	5425	7.21	2.41	-2.76
1994-95	6524	8.57	18.86	20.26
1995-96	7317	9.97	16.34	12.16
1996-97	6486	11.62	16.55	-11.36
1997-98	6508	13.79	18.67	0.34
1998-99	8809	20.45	48.30	35.36
99-2000	9867	26.69	30.51	12.01
2000-01	8753	26.68	-0.04	-11.29
2001-02	8552	26.85	0.64	-2.30

Sources: Information Provided by Officials of Uttar Pradesh Sahkari Gram Vikas Bank Ltd, Aligarh District Branch.

Likewise the total lending of the Bank has increased in the succeeding years. i.e. in the year 1994-95, the Bank has sanctioned an amount of Rs. 8.57 crore recording an increase of 18.86 per cent and the total number of beneficiaries have also gone up from 5425 persons to 65.24 person (i.e. 20.28 per cent more than last year. In the same way the Bank has lent Rs. 9.97 crore, Rs 11.62 crore, Rs.13.79 crore and Rs. 2045 crore and Rs. 26.69 crore in the year from 1995-96 to 99-2000 recording an increases of 16.34 per cent, 16.55 per cent, 1867 per cent and 48.30 per cent and 30.51 per cent in the respective years. The Bank has recorded a continuos increase during these periods. The per centage increase during this period has ranged between 9.69 per cent to 26.69 per cent. The total number of beneficiaries has also been increased from 7317 persons to 9867. Though the persons benefited during 1996-97 has been reduced in per centage term to 11.36, but the total amount of loans has got increased.

In the year ending 31st March 2002 the Bank has provided Rs. 26.85 crore to the farmers which is 0.64 per cent more than the preceding year.

From the analysis of the table 9.15 it can be concluded that, the Bank has a good performance as for as lending is concerned. But it could not maintain its increasing trend continuously, which was good during 1995-96 to 1999-2000, but remained almost stagnant in later years.

Recovery and Overdues Position of the Bank in the District.

The recovery position and overdues of the Bank since 1992-93 to 2001-2002 is tabulated in table 9.16. As per the table in the year 1992-93 there are Rs. 8.29 crore due for recovery followed by Rs. 6.82 crore in the year 1993-94 the recovery was 78.41 per cent and 79.49 per cent in the years. The percentage of overdues to demand is 21.59 per cent and 20.51 per cent. In the same way in the year 1994-95, 1995-96 and 1996-97 there were an amount of Rs. 1076 crore, 12.9 crore and 12.24 crore were due fore recovery out of which 82.90 per cent, 86.28 per cent and 87.58 per cent amount have been recovered in the respective years. The overdues in relation to demand in these years constituted 17.10 per cent, 13.72 per cent and 12.42 per cent, which shows a declining, trend.

Keeping its recovery position increasing and overdues declining the Bank recovery per centage in the year 1997-98, 1998-99 and 1999-2000 was 88.94 per cent 88.17 per cent and 89.92 per cent respectively. And its overdues per centage was also declining every year which was 11.06 per cent in 1997-98 come down to 10.08 per cent in 1999-2000.

The Bank has denied of an amount of Rs. 34.21 crore and Rs 26.24 crore in the year 2001-2002 and 200-2001. Out of which 87.05 per cent and 89.67 per cent have been recovered, the remaining 12.33 per cent and 10.33 per cent continue as overdues.

TABLE - 9.16
Total Recovery of Loans of Aligarh District by U. P. State Cooperative
Village Development Bank Ltd. (1992-93 to 2001-2002)

(Rs. in Crores)

Year	Demand	Recovery	Overdues	Percentage of Recovery to Demand	Percentage of Overdues to Demand
1992-93	8.29	6.5	1.79	78.41	21.59
1993-94	8.58	6.82	1.76	79.49	20.51
1994-95	10.76	8.92	1.84	82.90	17.10
1995-96	12.9	11.13	1.77	86.28	13.72
1996-97	12.24	10.72	1.52	87.58	12.42
1997-98	15.37	13.67	1.7	88.94	11.06
1998-99	16.57	14.61	1.96	88.17	11.83
99-2000	21.43	19.27	2.16	89.92	10.08
2000-01	26.24	23.53	2.71	89.67	10.33
2001-02	34.21	29.78	4.43	87.05	12.95

Sources: Information Provided by Officials of Uttar Pradesh Sahkari Gram Vikas Bank Ltd, Aligarh District Branch.

From the analysis of above table a conclusion can be drawn that the performance of Bank as far as recovery is concerned is satisfactory. The recovery per centage is increasing every year and the overdues per centage is decreasing each year except in the year 2000.2001.

Lending By the Bank- A Purpose wise Analysis:-

A Purpose wise lending of the Bank is given in Table 9.17. An analysis of the table show that a major portion of total lending has been provided in the field of Minor Irrigation farm Mechanisation and Dairy Development followed by drawing Cart and Horticulture Development in the District. Out of total lending of Rs. 159.28 crore in last ten years. Rs. 49.47 crore (31.06 per cent) have been sanctioned in the field of Minor Irrigation which form major part of the total lending. For Dairy Development, Rs. 47.18 crore have been provided for this purpose in the last ten years which constitutes 29.61 per cent of the total lending. Among the other purposes, Farm Mechanisation occupies the third major part of the total lending, with an amount of Rs. 43.13 crore (21.43 per cent).

An in-depth study of the table shows that in the area of dairy development in last five years, its lending has increased. From Rs. 6.73 crore in 1998-99 it went up to Rs.11.82 crore with regular increase each year. In the filed of Minor irrigation and farm Mechanisation, there were sudden increases in the lending position of Horticulture Development in the last five years which was

TABLE 9.17
Purpose wise Loaning of Aligarh District by U.P. State Cooperative Village Development Bank Ltd.
For 1992-93 to 2001-2002

S.No		Area of Loaning	1992-93		1993-94		1994-95		1995-96		1996-1997		1997-1998		1998-1999		1999-2000		2000-2001		2001-2002		Total Lending from 1992 to 2002		(Amount in Crores Rs)
			Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	Person Benefited	Amount	
1		Minor Irrigation	4781	4 980	4400	4 800	5703	6 670	6030	7 190	3123	4 660	2871	4 310	2842	4 390	3002	4 700	1961	3 240	2608	4 550	37321	49 490	30 986
2		Farm Mechanisation	119	1 330	102	1 200	40	0 580	55	0 860	269	2 630	207	3 240	313	4 850	504	7 060	301	7 130	193	5 310	2103	34 190	21 406
3		Dunlop Cart	285	0 200	378	0 310	277	0 260	521	0 550	1215	1 370	1345	1 610	1774	2 130	1212	1 790	957	1 410	517	0 780	8481	10 410	6 518
4		Dairy	332	0 450	503 00	0 860	444	0 950	501	1 060	859	2 000	1526	3 350	2791	6 730	3758	9 810	3501	10 150	3705	11 820	17920	47 180	29 539
5		Fisheries	2	0 050	3	0 003	6	0 010	3	0 012	7	0 120	16	0 033	9	0 020	11	0 031	3	0 014	4	0 031	64	0 324	0 203
6		Horticulture	50	0 050	31	0 004	16	0 031	137	0 192	301	0 520	367	0 779	589	1 430	778	2 020	752	2 140	622	2 090	3643	9 256	5 795
7		Non-farm Sector	9	0 018	5	0 009	33	0 600	55	0 103	193	0 350	124	0 360	116	0 250	198	0 399	628	1 160	703	1 620	2064	4 869	3 048
8		Rural Housing	1	0 004	0	0 000	3	0 012	13	0 063	9	0 051	8	0 055	4	0 036	2	0 010	0	0 000	2	0 014	42	0 245	0 153
9		Poultry	0	0 000	3	0 005	1	0 005	1	0 001	3	0 007	0	0 000	0	0 000	0	0 000	0	0 000	0	0 000	8	0 018	0 011
10		Animal Husbandry	0	0 000	0	0 000	1	0 009	1	0 009	6	0 007	44	0 056	365	0 544	365	0 660	667	1 291	181	0 456	1630	3 032	1 898
11		S.R.T.O.	0	0 000	0	0 000	0	0 000	0	0 000	0	0 000	0	0 000	6	0 070	8	0 340	10	0 156	6	0 139	30	0 705	0 441
TOTAL -			5579	7.082	5425	7.191	6524	9.127	7317	10.040	5985	11.715	6508	13.793	8809	20.450	9838	26.820	8780	26.691	8541	26.810	73306	159.719	100 000

Source: Information provided by the officials of Uttar Pradesh State Co-operative Village Development Bank Ltd Distt Branch, Aligarh

Rs. 1.43 crore in 1998-99 went up to 20.90 crore at the end of march 2002.

The Bank has also provided loans for the purpose of Fisheries, Rural Housing poultry and Animal Husbandry. It has provided an amount of Rs. 0.18 crore (0.11 per cent) and Rs. 0.25 crore (0.16 per cent) and Rs.3.03 crore (1.90 per cent) in the field of Fisheries, Rural Housing and for poultry Development respectively. The Bank has started to provide loan for rural people for small transport Vehicle. It has started this programme in the year 1998-1999 in the District. The Bank has provided Rs. 0.71 per cent in this field till the end of March 2002.

From the analysis of the above table it can be concluded that the Bank's performance in District is noteworthy. But an effective policy of lending can improve its lending capacity in the District.

Recovery of the Bank - A Purpose wise Analysis:-

Recovery of any credit lending organisation is important for its survival. It also helps ploughing back the funds for future loans and advances. Any failure in recovery shortens the base for future credit operation of the Bank. Uttar Pradesh State Cooperative Village Development Bank Ltd. in Aligarh is having an average recovery percentage of between 80 per cent to 90 per cent during last five years. The Bank has recorded an average 90 per cent recovery in Minor Irrigation, which is above the average recovery of 86 per cent in Uttar Pradesh. The Bank has recovered 91.57 per cent, 91.70 per cent, 91.56 per cent and 91-12 per cent

TABLE 9.18

Purpose wise Recovery of Loans of Aligarh Districts by U.P. State Cooperative Village Development Bank Ltd.

(Rs. in Crores)

S.No.	Purpose	1997-98			1998-99			1999-2000			2000-2001			2001-2002		
		Demand	Recovery	Balance	%age	D	R	B	%age	D	R	B	%age	D	R	B
1	Minor Irrigation	7.95	7.28	0.67	91.57	9.04	8.29	0.75	91.70	8.77	8.03	0.74	91.56	8.90	8.11	0.79
2	Farm Mechanisation	2.06	1.77	0.29	85.92	1.75	1.50	0.25	85.71	3.91	3.48	0.43	89	5.48	4.85	0.63
3	Diversified Proposes															
	A Horticulture	0.32	0.06	0.26	18.75	0.05	0.05	0	0.00	0.11	0.10	0.01	90.91	1.15	0.07	1.08
	B Dairy	1.65	1.42	0.23	86.06	2.10	1.75	0.35	83.33	4.78	4.27	0.51	89.33	6.30	5.61	0.69
	C Animal Husbandry	0	0	0	0	0.01	0.01	0	100	0.01	0.01	0	100	0.09	0.09	0
	D Fisheries	0	0	0	0	0	0	0	0	0	0	0	0	0.02	0.01	0.01
	E Poultry	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	F Dunlop Cart	0.81	0.72	0.09	88.89	0.12	0.10	0.02	83.33	1.03	0.10	0.93	9.709	1.19	1.03	0.16
	G Biogas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	S R T O	0.02	0.02	0	100	0.02	0.02	0	100	0.09	0.09	0	100	0.11	0.11	0
5	Rural Housing	0.17	0.14	0.03	82.35	0.02	0.02	0	100	0.10	0.10	0	100	0.01	0.01	0
6	Non Farm Sector	0.19	0.15	0.04	78.95	0.02	0.02	0	100	0.04	0.03	0.01	75	0.05	0.05	0
7	Others	0.01	0.01	0	100	0	0	0	0	0	0	0	0	0	0	0

Note: Recovery position of the Bank is available for last five years only

Source: By the courtesy of Bank Officials, U P Cooperative Village Development Bank Ltd., Aligarh District Branch

D = Demand, R = Recovery, B = Balance, % age = Percentage of Recovery to Demand

in the year 97-98 to 2001-2002 respectively in the field of Minor Irrigation, as shown in the Table 9.18

The recovery per centage in the field of Farm Mechanisation is 87 per cent on an average. The Bank has received 85.92 per cent, 85.71 per cent, 89 per cent and 85.50 per cent, 87.88 per cent in the Year 1997-98 to 2001-2002 individually. The analysis shows that Farm Mechanisation is the second highest field in recovery position.

The Bank has recorded good recovery position in other fields also. It has 85 per cent recovery in the field of Dairy. But it recorded very fluctuating recovery position in the field of Horticulture. It received 86.4 per cent recovery in the year 2001-2002 but it has very low record of 6.09 per cent in the year 2000-2001. It has 100 per cent and 90.91 per cent recovery in the year 1998-99 and 1999-2000.

In the other fields like Fisheries Dunlop Cart, S. R.T.O and Non Farm sector it has received between 75 per cent to 85 per cent. In the field of Dunlop Cart it had an average of 80 per cent recovery rate. In the field of Rural Housing it has recovery position ranging between 85 per cent to 100 per cent.

From the above analysis it can be concluded that the Bank has a satisfactory recovery position. However, it can improve its recovery position more by employing extra efforts where its recovery is less.

However, the overall performance of the Bank in the district does not conform to the needs of the farmers. Its performance is below as compared to the rate of growth of the population in the

District. The total amount of loans fall short of the demand of farmers. As a result the farmers have to approach to other source of credit like Commercial Banks and private moneylenders. The study of the total lending in Aligarh District by different credit agencies made in the thesis revealed that the farmers have approached other credit agencies, because of the U.P. State Cooperative Village development Bank has not been able to provided loans in as much quantum as they need for different agricultural purposes.

The loaning procedures of the Bank is also very cumbersome. This causes difficulty to the poor and illiterate farmers to fulfill the formalities and understand it. They have to run here and there to complete the formalities which is one of the many causes for low loaning in the district as many farmers having felt harassed give up the intention of seeking any loan assistance from the Bank.

The rude behaviour of the office staff is another cause of the below than expectation performance of the bank in the district. Most of the officials belong to urban areas and they do not know the problem of rural people. Their behaviour lacs much to be appropriate to villager borrowers. There is official delay in the procedure of sanctioning the loans to the farmers. They are made to visit bank several times for completion of official formalities. This also acts as repellant factor as many farmers do not have time to run around Bank branches several times.

Lac of information about the schemes of Bank to farmers is another reason for not so good performance of the Bank's in its various services to cultivators. The Bank is not fully disseminating

information to the farmers for its different schemes. Many new schemes are introduced by the Bank every year, but the farmers are not aware about the schemes of the Bank. So, there is need to make the rural people aware about the Bank's schemes. So that they may avail these services and more benefits of the Bank be available to the farmers.

The personal interviews of the many borrowers reveal that there is red tapism in the Bank branches. Only those people are being fairly and seriously dealt who have political influence. The Branch Management Committee is also politically influenced. So the deprived and the needy person are not getting loans and other facilities extended by the bank.

Delay in sanction of loan do not serve the purpose for which the Bank advances the loan. As farmers are in need of loans at the time of cultivation for purchase of seeds, fertilizers etc. but delay in loans sectioning caused delay in cultivation and as a result leads to low productivity.

There are misutilisations of loans. The money is not employed on the purpose for which it has been granted. A report sent by the Chief Development Officer, Aligarh to the Secretary Cooperative Department on 25th July, 1996 confirms that there is misuse of loans. According to the report, the Bank has given loans for the purpose of numbering 4,749 but according to sales figure there were only 759 pumset has been sold by the pumpset Manufacturers and Dealers in the district in that year. Thus, there

is misuse of 3990 pumpset loans. This works out to 84 per cent misuse under this scheme in the said year.¹

Quoting District Development Officer daily newspaper Amar Ujala had published on 14th August, 1996 that in the last three year the Bank has disbursed loans for boaring purpose to the tune of 13,201 Borings under the "Agravicka" scheme. But only 8,927 boring could be verified. Among them even 1,827 boring and pumpsets were found bogus. Thus 20.5 per cent of loans sanctioned were misutilised.

This situation highlight the fact that after the disbursement of loans, its verification is very essential, and if any one is found to be bogus, full recovery should be made at once or their property should be attached.

The analysis of purpose-wise loaning and recovery made in the study reveals that much emphasis has been given on Minor Irrigation and Farm Mechanisation, however, adequate emphasis has not been given on other purposes. Under diversified purposes Animal Husbandry, Fisheries, Poultry and Biogas purposes have remained neglected by the bank. The loans for these purposes have almost been negligible. Under poultry scheme only 0.01 per cent amount has been given by the bank in last ten years while many people are making their livelihood through poultry. Likewise there are many poor people in the district who are earning their livelihood in rural areas through other programmes, but the Bank

1. Progress Report, 1996-97, U.P. Sahkari Gram Vikas Bank Ltd. Lucknow, p. 29

is not providing adequate amount of loan to those engaged in these programmes.

Under the S.R.T.O Scheme, loans are being provided to unemployed rural persons for purchase of small Delivery Van and Trucks etc. However, in the District very negligible amount has been disbursed under these programmes while unemployment position is increasing day by day.

The next chapter summarises the conclusions based on this study and offers tangible suggestions to strengthen the Bank's function and to bring about improvement in the services of the Bank. In the state of U.P. has to shed its economic backwardness, institutions like, U.P. State Co-operative Village Development Bank Ltd. need to be infused with fresh vigour and strength, the capability and resources required to be augmented and efficiency turned up. So that the peasantry of the state reaps the optimum benefit from these institutions for their economic upliftment and poverty alleviation.

Chapter - X

Observations and Suggestions

Chapter – X

OBSERVATIONS AND SUGGESTIONS

An in-depth study about the role of Uttar Pradesh Co-operative Village Development Bank Ltd. in Agricultural Development has been made in relation to long term credit to agriculture sector. A brief resume of the main findings of the study, and a few suggestions based on the findings are presented in the chapter.

Uttar Pradesh State economy has been predominately an agricultural economy. Agriculture has the potential of contributing significantly to the State economy by providing employment to a large chunk of its population, by supplying raw material for industries and enriching the State exchequer. In fact, the process of development of the economy improves the inter dependence between agricultural and industrial sectors. Agriculture provides raw material to agro based industries and agricultural production is materially dependent on the rapid increase in the production of inputs supplying industries.

It is a significant fact that agriculture occupies a central place in the State income but its performance has been far from satisfactory. The agricultural sector grew at a rate much below the potential, the growth rate hardly kept pace with the population growth and requirements of the economy. The impact of new technology has not been sufficient to transform the agricultural

sector. The rapid growth of population on the one hand inadequate growth of agriculture on the other hand threatens to cripple the economy of the State.

Despite the fact that the factors responsible for backwardness of agriculture are legion, the problem of capital investment in agriculture is of paramount importance. It is with the help of necessary capital investment that production and productivity of agriculture can be improved. However, majorities of agriculturists are generally poor and are unable to finance their agricultural activities. Therefore, credit assumes great significance. If we are all concerned about increased total agricultural output in the short time, we must provide credit first and for most of the borrowers as, that will enable them to have more labour saving equipment, more plants and fertilizers. Moreover, credit should be accessible, cheap, safe as well productive, credit becomes a bottleneck to production if not available at the right time, in quantity needed and in the required constitutional forms, when technology of agriculture is sufficiently advance and other factors are present for transformation of stagnant agriculture. Hence, new institutional forms and additional capital may be needed at this stage for expanding technology and raising the levels of production.

The farmers of the State do not know institutional credit for capital investment in agriculture till the organisation of Land Development Bank in 1959. Before this agency, various Government departments were providing loans to these farmers but the quantum of credit available was limited and it resulted in adverse effect on our agricultural development in the State. With

the development of new technology in agriculture, the need of having institutional arrangement the provision of long-term credit was unavoidable. Keeping this in view, the State Government in March 1959 established a State level agency on co-operative basis for providing long-term credit and investment finance for agriculture, and allied activities. The agency was formed in the name of "Uttar Pradesh State Co-operative land Mortgage Bank." Initially the role of Land Development Bank was almost negligible because the various Government departments were providing similar credit facilities to the farmers for the purpose identical to those for which LDB was advancing loans. In due course of time, the State Government issued a directive stopping direct lending by Government departments and directed that all long-term credit for agriculture development shall be the sole responsibility of Land Development Bank.

For the attainment of main objective of financing the farmers, it started mobilisation of the resources rigorously through the issue of shares, debentures and utilisation of its own reserve. On account of the heavy rush of farmers for crop and related capital investment, the Bank had to resort to debenture issues for generating more and more funds. Uttar Pradesh Cooperative Development Bank Ltd. has, in spite of limited availability of resources worked for promoting the economic interests of its members and more particularly to cater the long-term credit needs of its members for agricultural development. The scheme it has framed include purchase of land, purchase of tractors, pumpsets, sinking of wells, levelling of lands etc. The Bank has provided

finance to the tune of Rs. 5702.85 Crores till the end of March 2002.

Success in the recovery of advance given depicts the healthy working of a Bank. It is a backbone of the Bank on which the entire financial structure sustains. Till 1990-91, the recovery position of the Bank used to be not less than 65 to 70 percent but after 1991, the recovery started increasing. Its recovery percentage increase from 70 percent in 1991-92 to 86 percent in 2001-2002 which showed its good performance.

Thus, Uttar Pradesh State Village Development Bank Ltd. which is one of the most suitable agencies for providing rural credit in the State has to play a decisive role in future loaning programmes of the State. The problems which are faced by lenders and borrowers are as follows:

Problems from the Lender's Point of View

Following are the main, problems facing the Bank from lender's point of view:

(1) Drawing and Disbursement:

At present drawing and disbursement powers of the "NABARD" are vested with the Mumbai Office. The release and remittance of the funds at present is done at Mumbai Office which is thousands of Kilometers from Lucknow. This has created a lot of problems for the Bank and thousands of rupees are lost in transit while remittances are made at Mumbai Office or when funds are released by them to State LDB. At times, delay in the receipt of funds from

“NABARD” paralyses this whole institution and brings the working stand still

(2) Inadequate State Capital Contribution:

Participation of the Government in the Share Capital Contribution is not adequate. Bank has raised its own share capital at Rs. 167.69 crore whereas State Government's participation is very low. Normally there should have been equal participation of the State Government towards the share capital of this institution. Gap in the share capital participation of the State Government indirectly effects of the prosperity and smooth functioning of the Bank.

(3) Poor Management:

State Cooperative Village Development Bank has failed to achieve its objectives in letter and spirit. The executors failed to execute the plans formulated by Management Committee because such plans are not based on appropriate planning premises. It has also observed that most of the executors of these plans are not well versed with latest controlling devices which are essential for the proper implementation of the plans.

(4) Lack of Proper Co-operation:

The present hierarchy system suffers from proper co-operation of the organisation leaving most of its programmes ineffective. There is wide gap between Management Committee at the top and other executors at District and Tehsil levels. It was observed that in some cases, decision taken at the higher level management are communicated to the District and Tehsil level Officers at the time when they

had lost their sanctity. At the same time the officers working at the District and Tehsil level branches of the Bank do not submit their necessary business reports well in time, with the result the problems in the functioning of State Cooperative Village Development Bank multiply year after year; making the system disfunctional.

(5) Lack of Selection and Training:

The personnel working in the Bank in various ranks find themselves in dole drums as they are not clear about their roles. In some cases the persons appointed are in no way fit to the satisfaction of the job. However, their selection is made on the basis of understanding which they have with members of Managing Committee. This defective method of the selecting persons for the Bank under study have been responsible for the unsatisfactory growth and functioning of the said Bank. The situation is more aggravating because branches working in rural areas totally unaware of rural development and agricultural finance. Urban people appointed in rural branches find it difficult to cope up with the environment prevailing in the development work and are always looking for an opportunity to get themselves transferred to urban areas having better facility. All this ill-equipped, ill-qualified and ill-experienced staff bares the very spirit of LDB's philosophy in Uttar Pradesh.

(6) Lack of Review on the Loaning Procedures:

Even though Uttar Pradesh has tried to provide quite laborate and simple procedures for the advancement of loans, yet, there should be a regular system of review on the

functioning of such procedures. The changed circumstances require changes in the procedures also. And as such, a regular review of loaning procedure is necessary.

(7) Lack of Deposit Mobilisation:

The deposit mobilisation by credit co-operative lags behind while other financial institution is keeping pace with the overall growth of the co-operative movement. Since the credit co-operative enjoy Government patronage, special efforts are required to boost up the deposits.

(8) Lack of Planning:

There is no systematic planning to work out the requirements of credit in a year for every district as well as for the State as a whole. It has been noticed that the optimum level of investment recommended for a particular scheme is not properly followed by the farmers.

Problems From Borrowers Point Of View

Undoubtedly the loaning business of this Bank has been satisfactory during the past four decades but while conducting the detailed study of this institution at macro as well as at micro level by observations, interviews and discussions, it was observed that the farmers were unhappy with the functioning of the Bank because of the problems faced by them, in approaching the Bank for farm financing. Some of the problems of para-mount nature are as follows:

- (1) The Bank has a very elaborate and comprehensive procedure for sanctioning of loans. This often results in the time lag between the sale of application and actual disbursement of

loan. The comprehensive procedure requiring a long time lag in the sanction of loans breeds corruption also.

- (2) It is observed in some cases that the farmer who is supposed to provide full information to the banker is unable to disclose his plans, assets, liabilities etc., because banker speaks more than the borrower. Banker tries to put forth his knowledge before the borrower. This is due to poor listening skill of some bankers.
- (3) Before disbursement of loan to the farmer by the Bank, its viability is not carefully judged. Test of returns and risk bearing ability is left to nature, thus putting the Bank into risk.
- (4) It is generally observed that credit reports of the farmers are cooked up in order to oblige them by giving loan. Moreover, such credit report are never change every year, hence puts the Bank at disadvantage.
- (5) There is common complaint that there is always invoicing. But rarely, it is seen any body rectifying this error by reducing the amount of loan. Sanctioning is done as invoice value knowingly that it is more than the actual.
- (6) Fixation of instalments with the borrower's is done arbitrarily in many cases. It is not based on incremental income with the result farmer find it difficult to repay the instalment and thus tries to find out excuses for not paying in time.
- (7) In some cases equitable mortgage is done with duplicate copies of title deeds, which is not desirable.

- (8) Loan amount is disbursed to the borrows or transfer to his saving bank account thus having no control over the drawing and the purpose for which the loan is taken.
- (9) Period of repayment is fixed in many cases without linking it with the harvesting season or time of cash inflow, there by facing problems, both by banker and borrower.
- (10) Identification of the borrower, his antecedents rarely done, and if done, it is rarely put in black and white, thus keeping everybody in dark about the source of identification.

Mere identification of problems is not the end in itself so far as the working and functioning of Uttar Pradesh State Cooperative Village Development Bank Ltd. is concerned. It, therefore calls for concerted efforts to minimise and even in certain cases eradicate the bottlenecks so far as to gear-up smooth functioning of the Bank and to ease the borrowers in procuring loan term finance for the development of agrarian economy of this State. In view of these problems, the following measures are suggested for putting the Bank under study on sound rails:

Suggestions

- (1) It is suggested that drawing and disbursing powers which are centralised with the NABARD at Mumbai may be decentralised not only to the Central Office of Village Development Bank put even at district level branches.
- (2) The participation of Government in the share capital contribution of the Bank is not adequate. It is suggested that there should be an equal participation of the State Government to wards the share capital of this institution.

- (3) Like all other credit co-operative institutions, the functioning of general body and district level committees should be made effective by giving them freedom in functioning and providing co-operative education especially on the role to be played by them in the proper implementation of plans. The managing director at the central level should encourage the members to actively participation in the meetings of the general body as well as of managing committee.
- (4) The guidelines issued by the NABARD in its 10-point action programme for the rehabilitation of weak branches needs the implementation by Bank at its priority. The central idea of this programme should be to improve the recovery position of weak branches and simultaneously the organisational, financial and managerial functions. State Government and the Bank should jointly frame the schemes to rehabilitate the sick branches. For ensuring the smooth and efficient functioning of various branches, some norms for minimum loaning business and income should be fixed along with a ceiling on expenditure keeping in view the level of business and income.
- (5) It has been observed that the Bank is following an elaborate and complicated procedure in sanctioning of loan. As far as procedure adopted for lending, the processing of applications starts at the supervisor's level. There is however, no arrangement for the branches of the Bank staff operating in various districts, to involve themselves in project identification. Under the present practice, the responsibility

for sanctioning loan is vested with the central office. The role of the branch managers of the Bank seems to be only link between Head Office and the farmer. To simplify the procedures, more powers be given to branch office's for sanctioning loan is vested with the central office. The roles of branch managers for sanctioning loans up to fixed limit say up to Rs. 15,000 only. So that the poor farmers may not loose much more time in following his case.

- (6) The system of follow up of utilisation of loans by the supervisors also called for certain radical improvements. At present, supervisors do visit loaness and record in their visit diaries of such activities. However, the periodicity of such visits and in particular, the contents of their reporting in the diaries left room for improvements. In particular the stage of progress of the implementation of the scheme/investment at the field level does not get reported. In order to improve the system, the following suggestions for proper functioning of the Bank are:

- (i) The periodicity of the supervisor's visits to the concerned farmer should be more frequent as per specific time schedule, immediately following the release of the loans to ensure that the loans released get committee to the works for which they are released. This by itself will help checking tendencies for possible mis-utilisation.
- (ii) The reporting by the supervisor in the field dairy shall invariably give the level of progress noticed by them in respect of the individual items of work taken up at the

farmers level and not merely a calendar of visits of the supervisor as is done now in most cases.

- (iii) The official of the Bank should check the visit diaries of supervisors periodically and also undertake random visits to the loanees, which will Act as a safeguard against possible wrong reports by supervisors.
- (iv) The general manager if not managing director also should select periodically on random basis some of the loan cases financed by Bank and visits the loanees along with the branch manager and the concerned field supervisor.

In short, for making the system more efficient, there should be effective system of checks and counter checks by different functionaries of the Bank starting right from district co-operative Village Development Bank level up to the central co-operative Village Development Bank Level. This along can create the needed awareness on the part of all functionaries in the Bank and the loanees at the field levels about the seriousness attached to the implementation of the programmes and recovery of dues.

- (7) Banker may try to understand at least the working apart of the purpose for which loan is sought for. If information is needed from outside say for example ground water level, suitability of soil for certain specific crops etc., should be collected before hand.
- (8) Before financing one may look into the fact, that what has been planned by the borrower can be executed and see whether it comes under the schemes framed by the Bank. If yes, how and if no, why? The technical committee of the

Bank in this regard needed can suggest any adjustment with reasons.

- (9) It is usually observed that before disbursement viability of loan is not carefully judged. It is suggested that expenses and income should be based on actual rather fictitious figure and profitability should be judged carefully.
- (10) Since credit reports provide a good information on financial as well as status of the borrower, it should never be cooked up; facts should be known even if advance is to be given, so that necessary precautions are taken. Secondly it will never remains the same e.g. cash balance would never be the same in the beginning and in the end, so are the credit reports.
- (11) It has been observed that farmers suffer due to shortage of working capital, therefore, giving working capital in cases when term loans are given assumes significance. Any lapse in this may result into non-repayment of loan instalment due to non-functioning of the assets resulting from lack of working capital funds.
- (12) To avoid the over invoicing, the banker should try to know the actual price of an asset i.e., tractor, tube-wells, pumpsets, trucks etc. by personally visiting to the dealers offices for a cross check. Tagging arrangements between the dealer and the borrower credit should be need based.
- (13) Equitable Mortgage should be created with original title deeds. Such mortgage should be created as per the law not by ones whims.
- (14) It must be observed carefully that villagers are identified before advancing loans to them at the time of executing the

documents, to avoid cases of impersonation and also to keep in recoveries.

- (15) The functioning of the Bank has been suffering to a considerable extent on account of its entanglement with politics. This is not a healthy sign for smooth and proper working of the Bank. Therefore, sincere efforts should be made to avoid the politics and create true spirit of co-operation in the affairs and functioning of the Bank. The State Government must give some guidelines and norms to be adopted by the Bank for keeping politics away from the affairs of the Bank so that its co-operative character and spirit remain intact.
- (16) The Bank, as a rural credit agency, has a distinct and vital role to play in the context of effective implementation of integrated rural development programmes (IRDP). While other financing agencies under this programme cover both agriculturists and non-agriculturists like agriculture labourers, village artisans and other weaker sections, the Village Development Bank which has hitherto provided credit to agriculturists only should also provide loans to non-agriculturists especially the rural poor to better link them with the mainstream of rural development. In addition, the Bank should also provide loans for development of rural industries.
- (17) It has been found that the illiteracy has been one of the major problems for the Bank to achieve its objectives. The illiterate and ignorant farmers should be made aware of the banking facilities available in their areas. As most of the

rural people are illiterate and ignorant about the policies of the Bank, the Bank should frame different programmes and schemes explaining the importance of the land development financing. These programmes should be broadcast. This will play an important role in the development of both the Bank and the beneficiaries.

- (18) The opposition political parties misguide the illiterate and poor farmers by talking about the remission or deferment of loans by the State Government. Non-recovery of loans causes strain not only on the resources of the lending agencies but it also creates problems for the borrowers who are denied further loans without repaying the previous ones. The recovery position can be improved by properly educating the borrowers about the importance of repayment of loans and the positive role of the political parties.

The aforesaid suggestions once implemented sincerely and effectively the Bank will flourish. Its role and assistance in the development of the depressed agricultural economy of the State will become much more significant and appreciable. To give boost to the Agriculture, Horticulture, Sericulture etc. needs the mechanisation and rationalisation of agriculture, which demands heavy capital investment. The Uttar Pradesh State Co-operative Village Development Bank Ltd. has first, to overhaul and rationalise itself in the light of the recommendations given in the preceding lines, then only it can be helpful to farmers and the State positively.

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Appendices

APPENDIX - A
UTTAR PRADESH SAHKARI GRAM VIKAS BANK LIMITED
PROGRESS AT A GLANCE

(Rs. in Crores)

Year	Total Branches	Total members	Share capital	Owned capital	Working Capital	Loan Disbursement		Loan on members	Debentures issued in the year	Demand	Recovery	Percentage of recovery on 30th June	Net Profit
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1960-61	30	604	0.15	0.16	0.16	0.03	0.03	0.03	0	---	---	---	0.002
1965-66	115	66248	0.88	0.95	9.15	5.97	8.58	8.13	3.83	0.45	0.41	91.2	0.1
1970-71	185	346154	6.10	6.80	93.81	21.62	83.54	76.16	19.22	8.48	7.46	87.92	1
1975-76	210	706902	14.91	19.50	226.85	23.17	218.11	159.04	26.46	40.78	33.88	83.07	4.14
1980-81	247	1137185	28.22	44.66	361.85	52.59	463.20	259.69	49.09	88.31	62.04	70.25	4.34
1985-86	265	1529960	35.21	76.27	441.03	74.78	773.23	332.33	40.44	114.37	87.26	76.3	5.65
1990-91	276	2241924	53.27	106.53	711.09	152.29	1343.40	577.78	141.29	304.13	197.75	65.02	9.45
1991-92	276	2440909	57.78	115.80	805.29	180.95	1524.35	657.21	149.99	281.85	197.2	70	10.73
1992-93	287	2623921	61.82	120.40	879.32	198.97	1723.32	737.22	164.12	270.48	196.71	72.72	11.24
1993-94	287	2803715	68.25	128.07	977.94	211.36	1934.68	817.23	180.00	297.05	214.68	72.27	12.26
1994-95	288	2923406	74.07	156.39	1129.15	257.06	2191.74	912.22	222.04	338.76	258.58	76.33	13.72
1995-96	298	3070381	82.51	183.05	1287.82	294.28	2486.02	1017.29	248.00	376.88	298.02	79.1	14.45
1996-97	306	3219577	92.21	202.56	1465.56	365.71	2851.73	1169.34	289.99	369.33	294.37	79.71	15.98
1997-98	313	3349556	89.62	209.26	1673.93	416.20	3267.93	1371.18	359.98	390.58	316.89	81.13	14.93
1998-99	313	3606275	107.58	227.24	1916.75	512.16	3780.09	1639.61	414.99	430.69	354	82.19	16.77
99-2000	321	3847362	127.11	246.77	2191.50	580.97	4361.06	1971.65	480.00	514.74	453.99	84.31	18.41
2000-01	321	4024559	150.65	283.99	2528.58	661.64	5022.70	2329.27	550.00	648.68	559.16	86.2	17.69
2001-02	334	4205528	167.69	309.45	2983.96	680.15	5702.85	2638.52	729.22	815.61	701.34	86	20

Source: 36th Annual Report, Uttar Pradesh Sahkari Gram Vikas Bank Ltd., Lucknow.

APENDIX - B

Purpose wise Lending by Uttar Pradesh Sahkari Gram Vikas Bank limited, Lucknow

(Rs. in Lakh)

S.No.	Purpose	1999-2000			2000-2001			2001-2002			Total upto 31 March, 2002		
		No.	Amount	%age of Total Loan	No.	Amount	%age of Total Loan	No.	Amount	%age of Total Loan	No. of Persons Benefitted	Amount	% of Total Loan
1	Minirrigation	97717	16521.87	28.44	80273	13377.81	20.22	92031	16506.91	24.27	3153435	290196.87	50.89
2	Farmmechanisation	8017	11317.99	19.48	7831	12786.44	19.33	5554	8073.54	11.87	165808	80638.62	14.14
3	Diversified	121655	27626.15	47.55	133627	35226.67	53.24	124051	37739.10	55.49	894289	172893.83	30.31
A-	Dunlupcart	27327	3803.15	6.55	31052	4683.23	7.08	26571	4146.71	6.1	316163	35294.50	6.19
B-	Dairy	64760	16465.65	28.34	66261	19937.41	30.13	66578	22401.65	32.93	367747	89970.68	6.19
C-	Animal Husbandry	12293	2285.17	3.93	15281	3279.75	4.96	11818	2875.94	4.23	86805	15344.53	2.69
D-	Poultry	2271	449.77	0.77	2683	677.41	1.02	2573	956.93	1.41	15154	3214.16	0.56
E-	Fisheries	701	281.62	0.47	613	293.79	0.44	707	366.27	0.54	7581	2138.96	0.37
F-	Horticulture	14303	4340	7.49	17737	6355.08	9.16	15804	6991.60	10.28	100839	26931.00	4.72
4	Non-Farm Sector	6962	2205.5	3.8	15618	4185.15	6.32	19339	4996.19	7.35	88328	20971.92	3.68
5	Rural Housing	592	418.75	0.72	732	587.44	0.89	926	672.33	0.99	6469	3470.21	0.61
6	Other	21	6.23	0.01	2	0.47	...	73	26.98	0.03	4912	309.64	0.05
7	Intitutional Finance	...	...	...	...	...	...	...	...	...	...	1804.01	0.32
	Total	234964	58096.49	100%	238083	66163.98	100%	241974	68015.05	100%	4313241	570285.10	100%

Source: 36th Annual Report, Uttar Pradesh Sahkari Gram Vikas Bank Ltd., Lucknow.

APPENDIX - C

CLASSIFICATION OF LAND DEVELOPMENT BANK LOANS

The Reserve Bank of India has stipulated classification of loan issued by Land Development Banks which have been categorised into identifiable productive purposes, unidentifiable productive purposes and nonproductive purposes. Their detailed description follows for an understanding of this classification:

(A) Identifiable productive Purposes:

- (i) Sinking of new wells (surface wells, dug-cum bore wells, tube-wells and filter points).
 - (a) in respect of which all instalment have been disbursed.
 - (b) In respect of which only part disbursement has made.
- (ii) Construction of new tanks to conserve water for wet cultivation.
- (iii) Boring and deeping, reconstruction or repairs to old wells (surface, tube or dug cum-bore wells) and deepening, reconstruction or repairs of tanks.
- (iv) Installation of persain wheels.
- (v) Purchase and installation of pumpsets (Diesel or electric), deposits with Electricity Board for high or low tension lines for energizing electric motors, construction of field channels and pump house.
- (vi) Purchase of Tractors, power tillers, mechanical sprayers and other machinery and implements.

(vii) Construction of godowns, cattlesheds, farm house, manure sheds to bacco barns etc.

(viii) Barbed wire or stone fencing.

(B) Unidentifiable Productive Purposes:

(i) Levelling bunding and reclamation of lands.

(ii) Soil conservation by terracing.

(iii) Construction of drainage channels to prevent flooding or bunding of land to prevent crosion.

(iv) Preparation of land for orchards, plantations, etc.

(C) Non-Productive Purposes:

(i) purchase of renancy/ownership rights.

(ii) Loans for redemption of prior debts/mortgages.

(iii) Purchase of land.

(iv) Others.

Since November 1972, RBI has given a privilege to land development bank to treat unidentifiable productive purposes under (B) above as identifiable purposes for financing under their normal lending programme provided following safeguards are observed:

(i) The area proposed for land reclamation, leveling, development, etc. are identified by the Development of Agriculture or by the concerned technically qualified agency.

(ii) The schemes are prepared according to a programme drawn by the Agriculture Development of State Government and executed either departmentally or by some other technically qualifies agency competent to undertake the work and certify completion thereof.

- (iii) The plans and estimates of the financial outlay are approved in each case by the Department or the agency, if any appointed or likely to be appointed the land development banks.
- (iv) Adequate arrangement for providing technical supervision over the work of construction and development are ensured and loans are issued in instalments according to the scheme.
- (v) The economic feasibility of each scheme is worked out to assess the additional income that might be generated on account of the development and on the basis of such assessments, appropriate periods of repayment of the loan fixed.
- (vi) The borrower should be able to repay the loan out of incremental income from the land benefiting from each scheme within a maximum period depending on the type of development but not exceeding 15 years.
- (vii) If no recovery of either principal or interest were to be possible during the first few years of the gestation period, the land development bank should be in a position to meet the commitment towards contribution of sinking fund, payment to interest on debentures etc., during these years from out of its owned funds.

Hence, the main object of the production oriented system of lending is to reorient the lending policies of the land development banks to productive purposes.

APPENDIX – D

NABARD'S 10 POINT PROGRAMME FOR REHABILITATION OF WEAK PLDBs/BRANCHES OF SLDBS.

POINT No.1

Selection of Weak Units for Rehabilitation:

- (a) Units with overdues exceeding 60 percent of the demand as on 30th, June, 1985 and those that will come under this category in subsequent years to be taken up for rehabilitation.
- (b) Of the above, units incurring losses continuously for 5 years and those which are not expected to achieve a loan outstanding of Rs. 70 to 75 lakhs within a period of 3-5 years not to be covered under rehabilitation being nonviable.
- (c) Non-viable units to be amalgamated or liquidated rehabilitation by State Government/ SLDB, if proposed to be retained.

POINT No. 2.

Investigation of Overdues:

- (a) appointment of a District Level Review Committee (DLRC) to analyse the overdues.
- (b) Case by case study of the overdues.
- (c) Creation of reserve for bad and irrecoverable loans.
- (d) Relief to non-wilful defaulters where necessary.

- (e) Time bound programme for recovery of dues of wilful defaulters by coercive action.
- (f) State Government to provide funds to LDBs for purchase of Lands brought to auction where there are no bidders.
- (g) Loans to farmers who are willing to buy such lands even above the 10% limit for lending for non-productive purposes.

POINT No.3

Strengthening of Organisation and Management:

- (a) Assessment of staff requirements.
- (b) Re-deployment of additional staff.
- (c) Appointment of technical and other staff.

POINT No. 4

Loan Policies and Procedures:

- (a) Review of policies and procedures with intent to streamline them.
- (b) Quick sanction and disbursement of loans.
- (c) Adequacy of finance.
- (d) Seasonality in Lending.
- (e) Post disbursement Supervision.
- (f) Financing of non-traditional activities, land and non-land based and loans against hypothecation.

POINT No. 5

Strengthening of Resources:

- (a) Strengthening of Share Capital base.
- (b) Loans from NRC (LTO) Fund for share capital contribution relaxing the usual overdues norms (35%) and limit for

government share capital contribution (50%) Rs. 10 lakhs per unit over a period of 3 years (Rs. 2-4 and 4 lakhs).

POINT No. 6

Financial Assistance from NABARD for appointment of Technical Staff:

- (a) Financial assistance from NABARD out of R&D Fund for appointment of technical staff for a period of 3 years.

POINT No. 7

Subside from NABARD for Creation of Rehabilitation Cell:

- (a) Subsidy from NABARD towards cost of creation of rehabilitation cell at SLDB level for monitoring the rehabilitation programme----- cost of one senior officer and a minimum number of Junior level officers, one officer for every 5 weak units and other supporting staff.

POINT No. 8

District Level Rehabilitation Review Committee:

- (a) Constitution of a District Level Rehabilitation Review Committee (DLRRC) for approving and monitoring the rehabilitation programme.

POINT No. 9

- (a) Constitution of State Level Rehabilitation Review Committee (SLRRC) for reviewing the progress of the implementation of the rehabilitation programme at State Level.

APPENDIX – E

RECOMMENDATION OF ALL INDIA RURAL CREDIT SURVEY COMMITTEE REGARDING CENTRAL LAND MORTGAGE BANKS

1. Each State should have a Central Land Mortgage Bank.
2. The State Government should review their tenure and tenancy laws and take steps to eliminate such features in them as without being essential to policy, and hindrances to the development of land mortgage banking. Where land reforms necessitated restrictions on the mortgaging of title, the scope of such restrictions on minimum necessary, thus selective mortgage, e.g., to cooperative societies and to governments could be made permissible. Further, any special procedure for registration. Similarly, the provision of the law should ensure that the title passed is as clear as secure as possible.
3. The size of government contribution to share capital, while subject to a minimum of 51 percent should be such as to help establish, irrespective of proportion of private capital forthcoming, an adequate number of central land mortgage banks whose financial structure enables them to borrow adequately and lend.
4. It should be provided in the constitution of central land mortgage banks that they can contribute to the share capital of primary land mortgage banks.

5. Land mortgage bank should orient their operations to production. e. g., they should give first priority to application for loans for improvement, reclamation and development of land, purchases of agricultural machinery and equipment and other productive purposes. Special efforts should be made to popularise productive loans.

6. Having regards to the policy recommended above, one of the very first needs is to evolve a machinery for achieving cooperative of credit with planned agricultural development assessment of the technical soundness of projects and verification of the use of credit. Administratively, these will require, among other things:

- (a) The adoption of techniques for making known the scheme of credit and the procedure for obtaining loans.
- (b) Close-cooperative with the appropriate government departments and their district staff.
- (c) Expansion (and where necessary specialisation of staff of the central and the primary land mortgage banks especially for supervision.

The improvement should be supervised from stage to stage during the execution of the project and the loan disbursed in instalments after each supervision. In this matter attempts should be made, wherever feasible to bring about coordination between the supervisory staff cooperative banks and of the central land mortgage banks.

7. In the context of the scheme of development loans by land mortgage banks, State Government should guarantee, for a specific period the difference between the value of the land before the improvement is effected and after it has taken place.

8. The State Governments should take suitable steps including amendment of the relevant law to the extent possible, to ensure, wherever this can be done without infringing wider principles of law, that a mortgage to the banks had the effect of the title being unambiguously vested in it. Further, it should be provided that, on the basis of basis of a guarantee by the primary land mortgage banks, a productive loan can be disbursed as soon as the preliminary investigation of title is completed. The guarantee of the primary bank will cease once the title to the land is found to be in order after detailed onvestigation. For providing such guarantee, each primary land mortgage bank should constitute guarantee fund of, say Rs. 25,000 to start with. The State Government should initially provide Rs. 5 lakhs to the Central Land Mortgage Bank for enabling it to create necessary guarantee funds for its primary land mortgage banks.

9. Scheme of productive loans should, in particular, be initiated in areas newly brought under irritations or about to beirrigated as well as in some of the community project areas.

10. Land mortgage banks should be reorganised as Governments' agency for the distribution of productive long-term loans in areas newly brought under irrigation, wherever such a step is practicable.

11. The period of repayment of loans for land improvment and production should be related to the purposes of lands; different periods should be prescribed for different purposes.

12. Land mortgage banks should regulate their second and third loans in regard to purpose, amount, period and interest in such a manner as to exert a beneficial influence on the borrower and hold

in check any tendency on his borrow frequently. Such loans should be provided for productive purposes only.

13. Central Land Mortgage Banks should issue debentures for varying periods in conformity with the purposes of the loans. Further, to fit in with requirement of rural investment, central land mortgage banks should introduce "rural debentures".

14. The Reserve Bank of India and the State Bank of India should take positive steps for the creation of an effective market for the debentures of loan mortgage banks.

15. There should be provision for issue of "special Development Debentures" by land mortgage banks with the object of their being purchased wholly or in part by the Reserve Bank.

16. Apart from the different forms of State assistance, already mentioned there should be: (i) Guarantee as regards both principal and interest of the debentures of central and Mortgage Banks, (ii) provision of staff for valuation of land, examination of land improvement, assisting their technical soundness, etc., (iii) provision of overdraft facilities, (iv) exemption from duty, registration fees, etc., (v) enactment of special legislation containing various provision for facilitating the working of land mortgage banks in undeveloped areas, with reference to their administrative costs, in order to enable them to function on an economic basis.

Source: All India Rural Credit Survey Committee Report (1984), Reserve bank of India, Bombay.

APPENDIX – F

REVISED FORMULA FOR VALUATION OF LAND

(A) Valuation of Land

The existing formula for valuation of land in all the district of the State except the districts of Kuman and Uttrakhand Division and hilly part of Dehradun districts is revised and in its place, the following formula is adopted:

“100 times the actual land revenue or 50 times the revenue calculated on the basis of the circle rate, whichever is higher, plus 25 times the difference of actual land revenue and the revenue calculated on the basis of circle rate”.

(B) The following formula shall apply for valuation of, and advancement of loan on fixed assets and grooves which are mortgaged with the U.P. State Cooperative Land Mortgage Bank Ltd. It will apply to the districts other than of Kumaon and Uttarkhand division and also Dehradun district.

(a) Masonry Well

i) A new masonry-Well with 5 feet radius constructed with bricks, cement and iron, which is in good working condition and is in regular use for irrigation, shall be valued at Rs. 1,000/-. A bored irrigation well, which is constructed only with bricks shall be valued at Rs. 500/-.

ii) Increase or decrease in size of the well shall proportionately increase or decrease its value.

iii) Yearly depreciation of 5% per annum shall be deducted from the value of a well.

iv) Limit of loan to be advanced by the Bank on the mortgage of the masonry well shall be 25% of its value subject to the condition that the amount so advanced to a member does not exceed 40% of the total loan advanced to him.

(b) Grooves

i) Mango, mahua, and jack fruit grooves, of not less than 7 years and not more than 20 years age, whose yield is generally sold for economic gain, shall be valued at the same amount as the value of land on which the grooves stands.

ii) Minimum number of grafted and deshi fruit trees in an acre should be 25 and 20 respectively.

iii) Timber grooves having trees of the minimum age of 15 years and average size, shall be valued at 50% of the value of loan on which the grooves stand.

iv) Loan shall also be advanced on the value of land on which the groove stand and which is mortgaged with the Bank.

(c) House

i) Only pucca farm-house shall be accepted in mortgage. Its value shall be put at 10 times the rental value per annum, subject to maximum Rs.500/-

ii) Loan shall be advanced upto 50% of the value of farm house.

(d) Valuation of Tube-well : The bank will also advance loan on the mortgage of tube-wells, and the formula for its valuation shall be as under:

i) A new Tube-well with four inch (4") discharge in good working condition, in regular use to its normal capacity and having no Government or Cooperative dues on it shall be value at rupees six thousand.

ii) For increase or decrease in the discharge capacity, a proportionate increase or decrease in the value of Tube well shall be made.

iii) For every one year age or part thereof of the tube-well a depreciation at the rate of Rs. 600.00 per year shall be made.

iv) Maximum limit of loan to be advanced by the Bank for mortgage of a Tube-well shall be 25% of its value subject to the condition that the amount so advanced to a member shall not exceed 10% of the total loan advanced to him.

The above mentioned method of valuation and advancement relate to the district other than Kumaon and Uttarkhand divisions and also Dehradun district.

Source:

By courtesy of Uttar Pradesh Cooperative Village Development Bank Ltd. Lucknow.

APPENDIX – G

DISQUALIFICATIONS FOR MEMBERSHIP OF THE MANAGEMENT COMMITTEE

Rule – 453 (1) No person will be eligible to be continue as a member of the Committee of Management of any cooperative society, if.

- (a) he is under 21 years of age
- (b) he is declared insolvent
- (c) he is of unsound mind, or is deaf and dumb, or blind or suffers from leprosy.

- (d) He has been convicted for any offence involving in the opinion of the Registrar, moral turpitude, such conviction not having been set aside in appeal.

- (e) He, or in the opinion of the Registrar any members of his family enters into or carries on, without the permission of the Registrar within the area of operation of the society, the same kind of business as is done by the society itself.

- (f) He enters into any transaction or contract with the society against the provisions of the Act or the rules of the bye-laws of the society.

- (g) He accepts or holds any office of profit under the society or under any society affiliated to such society; provided that this restriction shall be permitted by the State Government to provide in their bye-laws for the participation of employees in the management of the society.

- (h) He is not a member of the general body of the society.
- (i) He has been convicted of any offence under the Act or the rules, unless a period of three years elapsed from the date of the conviction.
- (j) He is a person against whom an order Section 91 has been obtained by a cooperative society and is pending satisfaction.
- (k) He is in default (at least for a period of six months) to the society in respect of any loan taken by him.
- (l) He is already a member of the committee of management of three other cooperative societies.

Provided that if a person is a member of the committee of management of an apex society he shall not be eligible to be the member of the committee of management of another apex society and similarly where a person is a member of the committee of management of a central society, he shall not be eligible to be a member of the committee of management of another central society.

(m) He has been dismissed for practising fraud, or for bad or dishonest conduct from Government service or from service of a cooperative society or of a body corporate, such order of dismissal not having been set aside in appeal.

(n) He joined in the application for the registration of, or was a member of the committee of management of a cooperative society which was subsequently wound up by the Registrar under clause (a) of subsection (2) of section 72 on the ground that the registration of the society was obtained by fraud, such order of the Registrar not having been reversed in appeal.

(o) He is otherwise disqualified under any of the provisions of the Act or the rules or of the bye-laws of the society.

(2) A member of the Committee of management who absents himself from three consecutive meeting of the committee of management shall provisionally cease to hold office:

Provided that the person concerned may make a representation to the Registrar or to an office, not below the rank of Assistant Registrar, within 15 days from the date on which the member received the notice of his having incurred the disqualification under this sub-rule and whether the Registrar or the office, as the case may be, is satisfied that there was sufficient casue for the absence of the member from the meeting as aforesaid, he may, by an order make a declaration to that effect and the thereupon the provisional disqualification shall cease and it shall be deemed that the person did not cease to hold office.

Explanation — The Registrar or the officer authorised by the Registrar shall, as far as may be, decide the representation under the proviso to this rule within thirty days.

(3) The provisions of sub-rule (2) shall not apply to a nominated or an ex-officio member of the committee of management of a cooperative society.

(4) Any person who has contested for election to the membership of the committee of management of a cooperative society, but has lost such election, shall not be eligible to become such member by caption for nomination.

- (5) The disqualification laid down under sub-rule (1) shall apply subject to the following conditions:
 - (x) the disqualification laid down in clause (h) shall not apply to a nominated or an ex-officio member of the committee of management or to such coopted member of the committee of management for whose cooption for membership of the general body was not a condition under the bye-laws of the society.
 - (xi) The disqualification laid down in clause (d) of clause (m) shall cease to operate on the expiry of five years after he has served out the sentence under the conviction or after the order of dismissal, as the case may be.

Source: Uttar Pradesh Cooperative Societies Rules 1968 (published in U.P. Gazette, extraordinary; Noti, 9907-C-IXXII-CA-25(12)68 dated December 1968, p.p. 103-119.

APPENDIX – H

PROCEDURE OF THE SALE OF MORTGAGE PROPERTY

- Rule-24:** While taking steps for sale under rule 23 the managing committee or any person authorised by it in this behalf shall give a notice in writing stating therein the amount claimed by the bank including expenses incurred by it in the service of notice and the particulars of the property sought to be sold, to all persons referred to in clause (a) of sub-section (2) of section 16 requiring them to pay the amount stated in the notice within one month of service of such notice.
- Rule-25:** If the amount specified in the notice issued under rule 24 is not paid within the period stated therein the managing committee or any person authorised in this behalf shall seek permission from the Board for the sale of the mortgage property specified in the notice.
- Rule-26:** The board shall within one month of the receipt of reference under rule 25 invite objections regarding the proposed sale of the mortgaged property for which the Board shall issue notice to the mortgager and any other person mentioned in clause (a) of sub-section (2) of section 16 giving them time not exceeding one month from the date of its service on them.

Rule-27: And the Board shall after the expiry of the period of notice mentioned in Rule 26 dispose off the objections if any, after hearing the objectors.

Rule-28: In case where the Board rejects the objections received under rule of where no objection is received, it shall authorise the Sales Office for the sale of the mortgaged property, provided that such sale shall not take place before, the expiry of three month from the date of service of notice issued.

Rule-39: Where the mortgaged property has been sold, the person either owing such property or holding an interest therein by virtue of title acquired before sale, may apply to have the sale set aside on his depositing with the bank concerned.

(a) a sum equal to five percent of the actual amount deposited by purchaser for payment to the purchaser, and

(b) the amount of arrears specified in the proclamation of sale for the recovery of which sale was ordered together with interest therein, and the expenses of sale and other costs due in respect of such amount less the amount which may since the date of such proclamation have been received by the Land Development Bank.

(2) If an application for setting aside the sale accompanied by a deposit as referred to in sub-rule (1) is made within thirty days of the date of sale, the managing committee on reference made by the Sales

Office shall set aside the sale and make or cause to make payment to the auction purchaser the amount deposited by him together with a sum of five percent of the amount so deposited:

Provided if more persons than one made deposit and applied under this sub-rule the application of the first depositor shall be entertained.

Rule-40: On the expiry of thirty days from the date of sale, if no application to have the sale set aside is made or if such application has been made and rejected, the Board shall make an order confirming the sale, whereupon the sale shall become absolute.

Source: Uttar Pradesh Cooperative Land Development Bank's Rules 1971, pp. 10,11,15,16,17 (published by U P State Cooperative Land Development Bank Ltd.. Lucknow, 1979.